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# Perspectives on the Internationalization of California State Government

Assembly Committee on International Trade and Intergovernmental Relations

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# **PERSPECTIVES ON THE INTERNATIONALIZATION OF CALIFORNIA STATE GOVERNMENT**

Part I — A Review of the Little Hoover Commission Report  
on California's Trade and Investment Programs

Part II — "Strengthening California-Mexico Relations" — A  
Review of the Report by the State Task Force on  
California-Mexico Relations

## **Assembly Committee on International Trade and Intergovernmental Relations**

Interim Hearing



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Phillip D. Wyman, Vice Chairman  
Bill Bradley  
Bruce Bronzan  
Peter Chacon  
Gary Condit

Sam Farr  
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Cathie Wright

Staff

Kathy Krause, Principal Consultant  
Richard Tagore-Erwin, Consultant  
Judy A. Riddle, Committee Secretary

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November 4, 1987  
Los Angeles, California

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Part I -- A Review of the Little Hoover Commission Report  
on California's Trade and Investment Programs

Part II -- "Strengthening California-Mexico Relations" -- A  
Review of the Report by the State Task Force on  
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Assembly Committee on International Trade  
and Intergovernmental Relations

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Lucy Killea, Chairwoman

Phillip D. Wyman, Vice Chairman  
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Judy A. Riddle, Committee Secretary

November 4, 1987  
Los Angeles, California

## TABLE OF CONTENTS

I.	INTRODUCTION.....	i-iv
II.	AGENDA .....	v-viii
III.	SUMMARY OF TESTIMONY .....	1-24
A.	Findings & Recommendations of the Little Hoover Commission.....	1-2
B.	State Government Responses to the Commission.....	3-7
C.	Private Sector Responses.....	7-9
D.	Review of the First Annual Report to the Legislature on California's Overseas Offices.....	10-12
E.	Task Force Recommendations.....	13-14
F.	Responses to the Task Force Report.....	14-15
G.	The Maquiladora Industry: Impact on California-Mexico Border Development.....	16-17
H.	Mexico/GATT and the Status of U.S./Mexico Bilateral Trade Negotiations -- Implications for California.....	17-19
I.	Assessing Trade and Investment Opportunities With Mexico - A Mexican Perspective.....	19-20
J.	Models of Cooperation Between California and Mexico-- A Framework for California State Government.....	21-24
IV.	SUBMITTED TESTIMONY.....	25-136
A.	Robert O'Neill, Executive Director, Commission on California State Government Organization and Economy (Little Hoover Commission) Mary Anne Chalker, Member, Commission on California State Government Organization and Economy (Little Hoover Commission); Deanna Marquart, Independent Consultant	25-28
B.	George Urda, Chief Executive Officer, Agricultural Export Program, California Department of Food and Agriculture.....	29-32



- C. Barbara Crowley, Commissioner.....33-41  
Energy Resources, Conservation and Development  
Commission (Energy Commission)
- D. Thomas Teofilo, Senior Vice President.....42-48  
Korea Shipping Line  
Chairman, Southern California Coordinating  
Council
- E. Charles Nevil, President.....49-62  
The Meridian Group  
Member, California State World Trade  
Commission
- F. John Liebman, Partner.....63-69  
Nossman, Guthner Knox and Elliott  
Member, California State World Trade  
Commission
- G. Richard King, President.....70-74  
Richard King International
- H. Ambassador Julian Nava, Vice President.....75-77  
Pacific Chapter, U.S./Mexico Chamber  
of Commerce
- I. Ricardo P. Reyes, Representative.....78-83  
Hispanic Chambers of Commerce
- J. Bob Reneau, President.....84-94  
Foreign Trade Association of Southern California  
President, Western Maquiladora Association
- K. Duane Zobrist, President.....95-102  
National Chapter, U.S./Mexico Chamber of Commerce
- L. Gabriel Szekely, Ph.D., Associate Director.....103-107  
Center for U.S./Mexico Studies, University of  
California, San Diego
- M. Al Araiza, Manager.....108-112  
Mexico Projects, San Diego Gas & Electric
- N. Lt. Governor Leo McCarthy.....113-115
- O. Assemblyman Norman Waters, Chairman.....116-117  
Assembly Committee on Agriculture

- P. Jerry Levine, President.....118-123  
Mentor International
- Q. Harry Endsley, Chairman.....124-126  
Legislative Committee, California Council for  
International Trade (CCIT)
- R. Frank Marquez, Director.....127-129  
Office of California/Mexico Affairs  
(commenting on testimony submitted by  
Mr. Gilbert Avila, Member, Commission of  
the Californias)

#### IV. APPENDICES

- APPENDIX A -- Executive Summary, A Review of .....130-134  
the Organization and Administration  
of California's Overseas Trade and  
Investment Offices
- APPENDIX B -- Transmittal letter, from.....135-136  
Strengthening California-Mexico  
Relations
- APPENDIX C -- ACR 82 (Killea).....137-140



## INTRODUCTION

The Assembly Committee on International Trade and Intergovernmental Relations conducted an interim hearing on November 4, 1987, to review and access two critical issues which have a tremendous impact on the future of this state. Under the broad heading of "Perspectives on the Internationalization of California State Government", the committee dealt with two specific issues: (1) the expanding role of state government in international trade and investment promotion, and (2) California's evolving relationship with the Republic of Mexico.

These two issues were brought into sharp focus by the release of two major reports by the Commission on California State Government Organization and Economy (Little Hoover Commission) and the Task Force on California-Mexico Relations. Both reports contained a number of suggestions for state-level action.

The Little Hoover Commission issued its report A Review of the Organization and Administration of California's Trade and Investment Offices in response to legislation by Assemblywoman Killea (Chapter 1387, Statutes of 1986). The report contained a number of findings and recommendations relative to the state's increased awareness of the importance of international trade and its growing interest in having improved relations with its major trading partners and greater foreign market access through the opening of overseas offices. The commission recognized the importance of the two offices in London and Tokyo and commended the administration for its pro-active stance relative to international business promotion.

Emphasizing California's reliance on international trade for its economic well-being, the commission noted that trade by the year 2000, will account for 1/4 of the gross state product. Within this context it made a series of recommendations to strengthen the state's international programs to encourage overall efficiency and effectiveness and to ensure better coordination among various departments and agencies involved in some aspect of international trade.

## **RECOMMENDATIONS FOR THE EXECUTIVE BRANCH:**

1. Establishment of a Governor's Office of World Trade to coordinate all trade activities
2. Appointment of a full-time world trade coordinator in the Governor's Office
3. Establishment of a Protocol Division within the Governor's Office
4. Creation of a clearinghouse on trade information
5. Relocation of export promotion and export finance programs to the Department of Commerce
6. Redefining the role of the World Trade Commission by giving it responsibility for raising and allocating private sector moneys for trade promotion

## **ESTABLISHMENT OF A JOINT LEGISLATIVE COMMITTEE ON WORLD TRADE:**

The report also commented on the role of the Legislature in the development of California trade policy. It strongly recommended a more "visible and coordinated role in world trade policy development" for the Legislature through the establishment of a joint legislative committee on world trade. While recognizing that each house has its own standing and select committees for dealing with trade bills and trade-related issues, it, nevertheless, saw the joint committee filling a major gap in state trade policy formation for the long term. It would also provide a unifying voice for the Legislature on trade, allowing greater opportunities for coordinating trade policy with the executive branch and more opportunities for trade research which would be responsive to the needs of the members of the Legislature. This expanded role for the Legislature would be consistent with the growing internationalization of the California economy and recognition that California is viewed as a major power in the global economy.

## **STRENGTHENING CALIFORNIA-MEXICO RELATIONS:**

The report by the Task force on California-Mexico Relations, Strengthening California-Mexico Relations (June 30, 1987) was equally significant for state government. Recognizing that California and Mexico have a unique relationship, it proposed a major enhancement of this relationship and a much more viable role for state government leaders, noting:

"Our proximity, our shared resources, our intertwined cultures, our economies and our common problems naturally draw us together. They also require much closer cooperation, joint planning and joint problem solving. In all of this there is a distinct and important role for state government and its various administrative agencies."

#### **TASK FORCE RECOMMENDATIONS:**

The Task Force in proposing ways to strengthen California-Mexico relations made two fundamental recommendations. One, it proposed the opening of a California Office in Mexico City, and two, it proposed replacing the existing Office of California-Mexico Affairs with a new Governor's Office of Mexico Relations.

These recommendations were timely responses to changes occurring within the economies and social structure of Mexico and California that present both opportunities and challenges. Major developments along the California-Mexico border brought about in part by the burgeoning Maquiladora industry, Mexico's recent entry into the General Agreement on Tariffs and Trade (GATT) and the recent signing of a bilateral framework agreement on trade between the U.S. and Mexico offer additional stimulus for expanding California-Mexico relations.

In addition to the two primary recommendations, the Task Force also recommended the following:

- 1) establishment of a high-level advisory committee on California-Mexico relations to provide state decision makers with policy input on a regular basis
- 2) streamlining of the Commission of the Californias
- 3) positioning of a liaison person in Washington, D.C. to monitor and react to federal policies which affect California-Mexico relations
- 4) implementation of innovative programs and policies to assist officials from both California and Mexico to interact more effectively

#### **SUMMARY:**

California state government and its private sector have proven remarkably adaptable to international economic, social and political forces. This report of the committee's interim hearing provides a summary of the major views of the witnesses who appeared before the committee. It also provides the complete

text of all written testimony received from both witnesses and others who had a particular interest in the subjects under consideration. As a whole their comments provide state decision-makers with a framework for determining how California can best utilize and organize its internal resources as it focuses outward to the rest of the world.

A G E N D A

ASSEMBLY COMMITTEE ON INTERNATIONAL TRADE AND  
INTERGOVERNMENTAL RELATIONS

PERSPECTIVES ON THE INTERNATIONALIZATION  
OF CALIFORNIA STATE GOVERNMENT

Part I: A Review of the Little Hoover Commission Report  
on California's Trade and Investment Programs

Wednesday, November 4, 1987  
9:30 a.m. to 12 noon

World Trade and Stock Exchange Club of Greater Los Angeles  
523 West 6th Street, Mezzanine Level  
Los Angeles, California

Panel 1 -- Findings & Recommendations of the Little Hoover  
Commission

- Robert O'Neill       -- Executive Director, Commission on  
                            California State Government Organization  
                            and Economy (Little Hoover Commission)
- Mary Anne Chalker   -- Member, Commission on California State  
                            Government Organization and Economy  
                            (Little Hoover Commission)
- Deanna Marquart     -- Independent Consultant

Panel 2 -- State Government Responses to the Commission Report

- Robert Monagan       -- President, California Economic Development  
                            Corporation  
                            Chairman, California State World Trade  
                            Commission
- Jim Rinehart         -- Director, Office of Business Development  
                            California Department of Commerce
- Barbara Crowley      -- Commissioner, Energy Resources,  
                            Conservation and Development Commission  
                            (Energy Commission)
- George Urda          -- Chief Executive Officer, Agricultural  
                            Export Program, California Department of  
                            Food and Agriculture



**Panel 3 -- Private Sector Responses**

- Thomas Teofilo       -- Senior Vice President, Korea Shipping Line  
                          Chairman, Southern California Coordinating  
                          Council
- Charles Nevil        -- President, The Meridian Group  
                          Member, California State World Trade  
                          Commission
- John Liebman         -- Partner, Nossman, Guthner, Knox and Elliott  
                          Member, California State World Trade  
                          Commission

**Panel 4 -- Review of the First Annual Report to the Legislature  
on California's Overseas Offices**

- Greg Mignano         -- Executive Director, California State World  
                          Trade Commission
- Jim Rinehart         -- Director, Office of Business Development  
                          California Department of Commerce
- Richard King         -- President, Richard King International

# **A G E N D A**

## **PART II**

### **"Strengthening California-Mexico Relations" -- A Review of the Report by the State Task Force on California-Mexico Relations**

**Wednesday, November 4, 1987  
1:30 p.m. to 5:00 p.m.**

#### **I TASK FORCE RECOMMENDATIONS**

David T. Romero, Chairman, California State Task Force on  
California-Mexico Relations

#### **II RESPONSES TO THE TASK FORCE REPORT**

Ambassador Julian Nava, Vice President, Pacific Chapter  
U.S./Mexico Chamber of Commerce

Ricardo P. Reyes, Representative, Hispanic Chambers  
of Commerce

#### **III THE MAQUILADORA INDUSTRY: IMPACT ON CALIFORNIA-MEXICO BORDER DEVELOPMENT**

Bob Reneau, President, Foreign Trade Association of  
Southern California  
President, Western Maquiladora Association

**IV MEXICO/GATT AND THE STATUS OF U.S./MEXICO BILATERAL TRADE  
NEGOTIATIONS -- IMPLICATIONS FOR CALIFORNIA**

Duane Zobrist, President, National Chapter -- U.S./Mexico  
Chamber of Commerce

Gabriel Szekely, Ph.D., Associate Director -- Center for  
U.S./Mexico Studies, University of California, San Diego

**V ASSESSING TRADE AND INVESTMENT OPPORTUNITIES WITH MEXICO - A  
MEXICAN PERSPECTIVE**

Carlos Tejeda, V.P. & General Manager, Bancomer,  
S.N.C., Los Angeles

**VI MODELS OF COOPERATION BETWEEN CALIFORNIA AND MEXICO -- A  
FRAMEWORK FOR CALIFORNIA STATE GOVERNMENT**

Al Araiza -- Manager, Mexico Projects  
San Diego Gas & Electric

Ethelda Singer -- Vice President, West Coast Chapter  
Sister Cities International

Dr. Jorge Bustamante -- President, Colegio de la Frontera  
Norte

Francisco Herrera -- Director  
Elsa Saxod -- Assistant Director  
Department of Binational Affairs  
City of San Diego

Paul Flores -- Director, Southern California  
Earthquake Preparedness Project  
Governor's Office of Emergency  
Services

Frank Marquez -- Director  
Office of California/Mexico Affairs  
(commenting on testimony submitted  
by Mr. Gilbert Avila, Member,  
Commission of the Californias)

**Assembly Committee on International Trade  
and Intergovernmental Relations**

**Interim Hearing**

**Summary of Testimony**

**SUBJECT I -- FINDINGS AND RECOMMENDATIONS OF THE LITTLE  
HOOVER COMMISSION**

**WITNESS -- Robert O'Neill, Executive Director, Commission  
on California State Government Organization and  
Economy (Little Hoover Commission)**

Mr. O'Neill noted that the commission's report responded to Assemblywoman Killea's AB 2685 (Chapter 1387, Statutes of 1986). That bill required the commission to examine the administration and coordination of the overseas trade offices. According to Mr. O'Neill, the study reaffirmed the importance of the world trade function, particularly in light of the fact that 1/4 of the state's gross product will be tied to international trade by the year 2,000.

He indicated that the state's commitment to trade has been an "on and off" interest in past years. For example, in the 1960's the state opened overseas offices in Mexico, Frankfurt and Tokyo but closed them within a few years.

More recently, other states have taken a much more active role in pursuit of world markets. Currently, 31 states have a total of 69 offices, either established or planned.

Mr. O'Neill applauded the state's recent efforts, noting that support in the last four years has gone from less than \$1 million to more than \$10 million. He also expressed the commission's support for the way the London and Tokyo trade offices have been organized, i.e., having them directly administered out of the Governor's office.

In reviewing the findings and recommendations of the Little Hoover Commission, Mr. O'Neill cited the following:

- 1) Trade activities, which are dispersed and managed through several semi-autonomous agencies, result in accountability problems.
- 2) There is an uncertain chain of command in the administration of trade activity.
- 3) Now is the time to establish a solid foundation for the state's trade programs (programs are currently based on

personal relationships, not defined structure).

- 4) The Legislature needs a more active role in trade promotion policy, particularly regarding state expenditures and oversight of the state's trade and investment activities.
- 5) A formal protocol function should be established in the Governor's office.
- 6) The establishment of a world trade office within the Governor's office and a full-time coordinator of trade would lend even greater credibility to the trade function and permit greater coordination and accountability.

**WITNESS -- Mary Anne Chalker, Member, Commission on California  
State Government Organization and Economy  
(Little Hoover Commission)**

Ms. Chalker, who chaired the subcommittee on the overseas office project, congratulated both the executive and legislative branches of state government for their interest in trade and emphasized the commission's interest in cohesion and accountability. She stressed the important role of the Legislature, noting that legislators "know best the needs of their constituents."

**QUESTIONS/COMMENTS:**

- 1) Assemblyman Wyman inquired whether legislation was needed to implement the Little Hoover Commission's recommendations or if these changes could be done administratively.
- 2) Senator Alquist noted that although many of the Little Hoover Commission's recommendations could be implemented without legislation, the specific enactment of legislation signals to the state that the executive and legislative branches are united and concerned about the state's world trade efforts. He also raised the issue of spending more money for trade activities, particularly the overseas offices. He indicated that the Tokyo office facility location did not adequately represent the State of California and that more funding may be needed to make the Tokyo office more representative of California's stature as a leader in international trade.
- 3) Assemblywoman Killea noted that another recommendation -- the establishment of an Office of World Trade in the Governor's office -- would necessitate changes in the function and responsibilities of the World Trade Commission and, therefore, would require legislation.

**SUBJECT II -- STATE GOVERNMENT RESPONSES TO THE COMMISSION  
REPORT**

**WITNESS -- Robert Monagan, Chairman, World Trade Commission  
President, California Economic Development  
Corporation**

Mr. Monagan began the discussion on state government's responses to the Little Hoover Commission report by noting that his comments were personal and did not reflect the official views of the World Trade Commission which had yet to take a formal position.

However, Mr. Monagan commented that the report had substantial value because it:

- 1) presented an accurate picture of where California is going with trade,
- 2) built greater awareness of the importance of trade,
- 3) served the interests of the Legislature well by describing its important oversight role,
- 4) clearly indicated the state was on the right course with regard to its greater emphasis on international trade promotion.

Mr. Monagan also cautioned the committee to proceed with care regarding implementation of the recommendations, particularly with regard to changing the role and functions of the World Trade Commission. Making the World Trade Commission strictly an advisory and fundraising organization may not be acceptable to the private sector.

He also noted that some of the suggestions of the Little Hoover Commission have already been implemented, e.g. the new foreign visitor's program within the World Trade Commission and the introduction of a resolution by Assemblywoman Killea (ACR 82) to establish a joint committee on international trade.

In addition, he made the following comments:

- 1) The Legislature can take credit for much of the progress made to date in trade promotion since much of the initiative and inspiration has come from the Legislature.

- 2) It is also fair to say that much of the state's success in international trade development is a result of the Governor's following up on these initiatives.
- 3) As a state, California has made "amazing progress" in four years in promoting its international agenda.
- 4) The \$11 million we are currently spending to promote trade is not very much if we consider that in a relatively short period of time about a quarter of our economy will be dependent on trade.

The balance of Mr. Monagan's remarks dealt with the establishment of a Joint Committee on World Trade as recommended by the Little Hoover Commission. He believed this to be the single most important recommendation made by the Little Hoover Commission. Establishment of this committee would increase the Legislature's responsibility for trade policy and would expand its oversight of the state's numerous trade programs. He also expressed a desire to see the Legislature speak with "one voice" on trade issues and expressed concern for the plethora of trade bills introduced each year often with conflicting policies. To the extent possible it would be helpful, according to Mr. Monagan, to have one "legislative" trade policy. He also expressed concern over the establishment of sister state/nation relationships. The joint committee could be helpful in determining which relationships should be established.

Noting that California in many respects operates as a "nation-state", he hoped the Legislature would act quickly to establish a joint committee on world trade. Such a structure, according to Mr. Monagan, would provide the Legislature with a more visible and coordinated role in state trade policy development.

In elaborating on the functions of the joint committee, he further recommended that:

- 1) the joint committee be composed of the leaders in the Legislature, especially those who have leadership in the trade issues themselves.
- 2) it should have an unusual policy role because we are dealing with foreign nations and international issues which necessitate greater sensitivity and flexibility.
- 3) legislative conflicts over trade policy be kept to a minimum. As an example he noted that this year the World Trade Commission had to deal with 50 legislative proposals spread out through 17 different committees often with conflicting policy considerations.

- 4) the joint committee, when possible, should provide overall policy direction for the Legislature on trade issues.

On protocol matters, foreign visitors, legislators' trips abroad and sister-state relationships, Mr. Monagan made the following suggestions for the Legislature:

- 1) There should be one coordinated foreign visitors and protocol program for the Legislature as a whole, instead of the two distinct programs that now exist in the Senate and Assembly.
- 2) The Legislature should focus greater attention on legislators' trips abroad, particularly when those trips relate to state trade policy. It is vital that legislators do not send conflicting signals to our trading partners which may have negative repercussions for the state.
- 3) The plethora of sister state/nation relationships initiated by the Legislature demonstrates a need for better coordination and control and, therefore, should be reviewed more carefully by the Legislature, and, most appropriately, by a joint committee on trade.

**QUESTION:**

(RELATIONSHIP OF THE JOINT COMMITTEE TO OTHER COMMITTEES)

Senator Alquist asked about the effect the establishment of a joint committee might have on existing Senate and Assembly trade committees, such as Assemblywoman Killea's committee or Senator Montoya's Select Committee on the Pacific Rim. In response, Mr. Monagan suggested that key legislators on trade issues might very well be part of the joint committee.

**WITNESS -- James Rinehart, Director, Office of Business Development, Department of Commerce**

Mr. Rinehart noted that the department was still in the process of evaluating the recommendations but recognized that such major changes could not be accomplished overnight.



**WITNESS -- Barbara Crowley, Commissioner, California Energy  
Commission**

Ms. Crowley reviewed the accomplishment of the commission with respect to the export of energy technologies to both developed and developing nations. She indicated that the Energy Commission, like the Department of Agriculture, had an important role to play in export promotion. She noted that the Energy Commission regularly conferred with the World Trade Commission and the Department of Commerce on export issues and also noted that the energy function in most countries is a government function. According to Ms. Crowley, energy warrants a specific trade program because, like agriculture, it is a major component of the California economy.

In concluding her remarks, Ms. Crowley noted that the Energy Commission:

- 1) consistently works in conjunction with the state's other trade agencies,
- 2) supports the recommendations of the Little Hoover Commission,
- 3) will work within the context of any organizational structure which is agreed upon by the executive and legislative branches.

**QUESTION:**

(COORDINATION BETWEEN STATE AGENCIES)

In response to a question by Assemblywoman Killea on the Energy Commission's coordination with other state agencies on trade issues, Mr. O'Neill commented that this coordination was not as strong as it could be. He noted, however, that now that the Energy Commission is part of the overseas offices working group, coordination has improved demonstratively.

**WITNESS -- George Urda, Chief Executive Officer, Agricultural  
Export Program, Department of Food and  
Agriculture**

Mr. Urda described the state's agricultural marketing program which has been operational since May, 1986. He noted the department's support for the Little Hoover Commission's recommendation that trade and investment activity be coordinated by the Governor's office. He also stated that the department works closely with other agencies involved in trade promotion, specifically the World Trade Commission and the state's two overseas offices. Examples of cooperation cited by Mr. Urda included:

- 1) agricultural trade shows coordinated with the World Trade Commission and overseas offices;
- 2) coordination of international visitors' appointments with the Governor's office.

Mr. Urda, citing the experience of the federal level Foreign Agricultural Service, noted two reasons why centralization has been rejected at the federal level of government:

- 1) Individual departments have developed subject expertise.
- 2) They have the "day to day" connections, contacts, rapport and long standing working relationships which contribute to industry-government cooperation.

Mr. Urda stated the department's belief that "the Governor's goal is to internationalize all state agencies and have all agencies develop the capacity to respond effectively to world trade issues and developments." The Department of Agriculture, according to Mr. Urda, believes that this can be achieved by allowing state agencies to do what they do best.

**SUBJECT III -- PRIVATE SECTOR RESPONSES TO THE LITTLE  
HOOVER COMMISSION REPORT**

**WITNESS -- Thomas Teofilo, Senior Vice President  
Korea Shipping Line**

Mr. Teofilo commented on the work of the World Trade Commission noting the confidence of the private sector in the commission. In addressing the recommendations of the Little Hoover Commission, Mr. Teofilo recognized the appropriateness of having the state look at the issues of accountability, coordination and legislative oversight of the state's trade and investment activities.

In responding to the recommendations of the Little Hoover Commission, he made the following observations:

- 1) The Little Hoover Commission report was extremely thorough.
- 2) There was a need for a Governor's Office of World Trade.
- 3) There should be a full-time director of World Trade in the Governor's office.
- 4) There should be more coordination among various agencies involved in trade promotion.

- 5) Protocol efforts are important to the state and should not be overlooked.
- 6) Establishment of Joint Committee on World Trade is a logical step for the Legislature.
- 7) The relocation of export promotion activities from the World Trade Commission to the Department of Commerce may lead to inertia/lack of momentum.
- 8) Giving the commission the role of solicitor of private funds for the World Trade Commission's program is questionable because the private sector already supports the state's trade program by means of tax revenues.
- 9) The success of the World Trade Commission is to a great extent a result of the flexibility inherent in its structure.

**WITNESS -- Charles Nevil, Member, California State World  
Trade Commission**

Mr. Nevil commented on the value of the Little Hoover Commission report stressing that it "reaffirms the interest in internationalization which created the World Trade Commission." Mr. Nevil presented views from some of the state's major trade promotion organizations, including the Export Managers Association and the Los Angeles Chamber of Commerce. Both organizations, according to Mr. Nevil, had grave concerns about major changes in the structure and role of the World Trade Commission as proposed by the Little Hoover Commission.

In commenting on the changes proposed by the Little Hoover Commission which directly affect the World Trade Commission, Mr. Nevil noted he was concerned about any change in the commission which would lessen its effectiveness by placing certain commission functions under the direction of various state agencies. In particular, with regard to the commission's export finance and export trade promotion staff, he stated:

"the staff which the commission has attracted would not have been available to the commission if these job positions were under civil service. Not only would the tie that binds our trade community to the commission be broken, but I truly believe the level of talent available to such activities as export trade promotion and the Export Finance Board would be severely diminished. I believe this is an attitude shared by most of my professional colleagues."

He took exception to the Little Hoover Commission recommendation that the World Trade Commission become a fund raising mechanism

to help support the state's trade programs and that commissioners become "advisors," believing that this action would "reinstate the status quo which existed before the commission's creation."

**WITNESS -- John Liebman, Member, California State World Trade Commission**

Mr. Liebman found the Little Hoover Commission report to be constructive. However, he felt there were some shortcomings in the report, specifically in its discussion of the role of the World Trade Commission. He noted that the report failed to take into account the "political dynamics" that led to the commission's creation. He made the following observations about the commission and state government:

- 1) Prior to 1982, state government had little credibility within the international business community.
- 2) The business community was skeptical of any joint effort between the trade community and the political arena of Sacramento.
- 3) The World Trade Commission is currently operating very effectively.
- 4) The commission is successful because it has a significant operational role.

Regarding other recommendations of the Little Hoover Commission he noted:

- 1) Although there is now an "informal" network as opposed to a formal agency relationship among the various state agencies that have trade responsibility, a "formal" relationship is not necessarily better.
- 2) The creation of an Office of World Trade does not necessarily ensure "long-term commitment to trade development."
- 3) Performance should determine a program's continuity.
- 4) If the commission becomes only an advisory group and if the private sector is denied a "real role" then the state's trade program may very well falter.
- 5) Any move to change the World Trade Commission function should be done with great caution.

**SUBJECT IV -- REVIEW OF THE FIRST ANNUAL REPORT TO THE  
LEGISLATURE ON CALIFORNIA'S OVERSEAS OFFICES**

**WITNESS -- Gregory Mignano, Executive Director, California State  
World Trade Commission**

In reviewing the first annual report on the operations of the overseas offices in London & Tokyo, Mr. Mignano noted the excellent performance record of the two offices. As indicated in the report prepared by the Governor's Coordinator of overseas offices, Mr. Jim Robinson, he made the following observations on the offices:

- 1) They have so far tended to be more reactive than pro-active as would be expected in the beginning phase of operations.
- 2) The Tokyo office is not in a "basement," as noted by Senator Alquist who had visited the office. (Mr. Mignano noted the office was located in a premier office building in the most desirable area of the city and that the steep incline of the street on which the office is located made it appear to be below ground level on one side).
- 3) There was sufficient work to do in both offices and each office has established its own credibility.
- 4) The London office is a "one stop" shopping center for foreign buyers and a "reference" center for California firms.
- 5) One staff person in the London office was assigned to trade promotion on the continent.
- 6) Up to this point, the overseas offices have tended to work with those industry sectors which have good export performance records despite a downturn in the export economy.
- 7) The offices are implementing a direct sales campaign designed to introduce the products of the small business community to qualified foreign buyers/agents or distributors.

- 8) Extensive libraries at each overseas office are now being developed as well as a "company brochure" library. (U.C. and CSU business school students are now working to develop profiles of companies in their regions which will be catalogued in the overseas offices).

**QUESTIONS/COMMENTS:**

**(EXPENDITURES FOR OVERSEAS OFFICES)**

Assemblywoman Killea suggested the need for more information regarding improvements in the operations of the overseas offices, particularly a better idea of how the money is being spent and if the budget is adequate to meet the needs of the state to improve its export position.

Mr. Mignano responded that the one significant problem area is the budget. Although the first annual report says the budget is adequate, Mr. Mignano noted that the continuing fall of the dollar may necessitate a less than modest increase in the budgets for the overseas offices.

**(OVERSEAS OFFICES - EXPANSION)**

In response to a question by Assemblyman Longshore on expansion of overseas offices, Mr. Mignano noted that the Tokyo office would be overwhelmed by work just in Japan. Mr. Mignano personally felt that a second Asian office might make sense considering the vast distances and other considerations.

He also noted that there is a proposal for a Mexico City office and that there is interest in a Canadian office. He felt that the London office could adequately cover the European continent.

**WITNESS -- Richard King, President, Richard King International**

Mr. King, a businessman with over 25 years of corporate and state government experience, commented on the changes in the political climate which has led to increased interest in trade. He believed that the state's involvement in trade was a positive development, acting as a catalyst for the competitive efforts of the private sector.

In commenting specifically on the Little Hoover Commission's report he made the following points:

- 1) There is a need for consolidation of trade functions within the executive branch to bring together policy and administration.
- 2) Our foreign trading partners feel more comfortable when they are dealing with one agency of government on trade matters.

- 3) California's international firms want to feel they have the clout of the Governor's office.
- 4) Export marketing and export finance should be moved to the Department of Commerce as suggested by the Little Hoover Commission.
- 5) There should be firm performance guidelines and a business plan for the overseas offices.

He also made several comments to the committee on the state's role in international education to maintain our competitiveness and leadership position. Emphasis should be placed on foreign language acquisition and in understanding foreign cultures, according to Mr. King.

In conclusion, Mr. King stated that in his view the Little Hoover Commission report was:

"one of the most objective and insightful analyses of the state's activities in world trade that we have seen in many years. The recommendations offer new means to strengthen the state's role in trade as well as make it more responsive to the needs of the international business community."

**WITNESS -- Jim Rinehart, Director, Office of Business Development, California Department of Commerce**

Mr. Rinehart centered his remarks on the foreign investment attraction activities of the overseas offices. He noted that the Director of the Tokyo office, Mr. James Vaughn, was the former director of the California Office of Business Development. He also noted that the office of Business Development has established a unit for foreign investment within the office which works in concert with the overseas offices.

With respect to the London office, Mr. Rinehart brought to the committee's attention that 80% of the office's efforts is focused in the United Kingdom. Less attention is being put on investment promotion. The office is still in a reactive not pro-active mode which is to be expected in the first months of operation.

## **PART II**

### **STRENGTHENING CALIFORNIA-MEXICO RELATIONS**

#### **SUBJECT I -- RECOMMENDATIONS OF THE TASK FORCE ON CALIFORNIA-MEXICO RELATIONS**

**WITNESS -- David Romero, Chairman, Task Force on  
California Mexico Relations**

Mr. Romero provided the committee with an overview of the work and recommendations of the task force. He noted the mandate of the task force - to enhance the relationship between California and Mexico - and then described the major recommendations presented to the Governor and Legislature. He emphasized that the report was intended to be used as a "policy" document as opposed to a detailed plan describing how the recommendations were to be implemented. That task would be the responsibility of the executive and legislative branches of government.

Mr. Romero summarized the Task Force's recommendations as follows:

- 1) California should reorganize its Office of California-Mexico Affairs, making it more able to respond to and anticipate issues, strengthening its role in policy formation at the state level and ensuring interaction with other state departments and agencies on issues that affect California-Mexico relations.
- 2) California should establish an office in Mexico City as part of a systematic approach to strengthen relations, resolve mutual concerns and take advantage of favorable trade opportunities.
- 3) California should establish a formal advisory committee on California-Mexico relations to provide state decision-making with sound policy advice on a regular basis.
- 4) The Commission of the Californias should be reorganized and streamlined, while still emphasizing the special relationship that exists between the State of California and Baja California, Mexico.
- 5) The California Office in Washington, D.C. should play a more active role in shaping policy by monitoring federal actions which would have an impact on California-Mexico relations and by providing federal officials in both the executive and legislative branches with a California perspective.



- 6) California should implement innovative programs and policies that would permit its officials to interact more regularly and closely with representatives of the government of Mexico, its component states and the private sector.

In concluding his remarks, Mr. Romero noted that even though Mexico is "next door" few government officials have a thorough understanding of the importance of Mexico to California. Government officials and the public need to be educated in this area.

#### **QUESTION:**

Assemblywoman Killea asked for Mr. Romero's suggested time frame for implementing some of these recommendations.

Mr. Romero responded that in his view, action should be taken in the "immediate future," i.e., within the coming year (1988).

#### **SUBJECT II -- RESPONSES TO THE TASK FORCE REPORT**

**WITNESS -- Ambassador Julian Nava, Vice President, Pacific Chapter of the U.S./Mexico Chamber of Commerce and former U.S. Ambassador to Mexico**

Ambassador Nava made the following comments on the specific recommendations of the Task Force:

- 1) It was probably a good idea to replace the current office of California-Mexico Affairs with a new office of Mexico Relations. He noted that the current office has not been effective, i.e., it lacks personnel, budget and the commitment of the Governor and the Legislature.
- 2) A California office in Mexico was desirable. He believed that the office should be adequately funded and staffed. He also commented that "the cost of the office abroad must be balanced against the urgent needs for staff and resources for bilateral relations within California."
- 3) The formation of an advisory committee to the new office of Mexico Relations is a sound idea. However, "the quality of the director and the commitment of the Governor will determine whether it serves a useful purpose." He proposed that membership of this committee come from the legislative and executive branches of government.

- 4) Strengthening the Commission of the Californias and eliminating delegates may be of limited value without the commitment of the Governor. Care must be taken that only truly committed members are selected rather than "partisan pals" and those who have mainly personal business interests to serve.
- 5) Before considering California's office in Washington as a vehicle for addressing California-Mexico issues with federal government officials, it would be useful to improve relations with California's congressional delegation.

In general, Ambassador Nava supported the Task Force recommendations. He encouraged the Legislature and the Governor to become more involved in California/Mexico affairs. State government must allocate "adequate resources" to strengthen ties with Mexico.

**WITNESS -- Ricardo Reyes, Representative, California  
Hispanic Chambers of Commerce**

Mr. Reyes expressed chamber support for improved relations with Mexico as proposed in the task force report. As a trade association of small and medium-sized business owners, the CHCC "advocates for a California trade and commerce office in Mexico City." An office in Mexico City would be useful by providing expertise and information to California's business community, according Mr. Reyes. He expressed CHCC's belief that "California's presence in Mexico should be viewed as an integral component in the overall international strategy."

He also offered the following suggestions:

- 1) The staff of the Mexico City office should operate on a premise of long term commitment to this effort regardless of the shift in economic or political climate.
- 2) The reorganization of the Office of California-Mexico Affairs should be based on a desire to strengthen it.
- 3) Institutionalized programs are needed as well as commitment, particularly during periods of economic slowdown.

**SUBJECT III -- THE MAQUILADORA INDUSTRY: IMPACT ON  
CALIFORNIA-MEXICO BORDER DEVELOPMENT**

**WITNESS -- Robert Reneau, President, Foreign Trade  
Association of Southern California  
President, Western Maquiladora Trade  
Association**

Mr. Reneau described for the committee the goals of the Western Maquiladora Trade Association (an association of 75 U.S. and foreign firms operating maquiladoras in Baja California). He also noted that the development of a "global economy" has created new sources of competition and required that a product be of the best quality and at the "minimum possible end cost."

Maquiladora, or production sharing, according to Mr. Reneau, is a reaction to foreign competition and a way to reduce product cost. Maquiladoras now employ 300,000 people at 1,000 plants on the U.S./Mexico border.

There is a mistaken belief, stated Mr. Reneau, that maquiladora associated jobs in Mexico mean fewer jobs in the U.S. This is not necessarily true for the following reasons:

- 1) additional factory workers can be hired in the U.S. because the product assembled offshore can now compete with wholly foreign-produced products.
- 2) additional support personnel are needed here in component fabrication, transportation, scheduling and other areas.

According to Mr. Reneau, the effect on manufacturing employment in California has been beneficial, for example:

- 1) Industrial employment in Los Angeles county is up 9.3% from 3 years ago.
- 2) The number of factory workers in Riverside and San Bernardino counties is up 37% over 1975.
- 3) Orange County industrial employment has increased 57% during this same period.

He also offered the following information to the committee on maquiladoras:

- 1) One-third to one-half of the people working in Tijuana's maquiladoras are employed by Japanese firms. These companies often operate from a California parent facility with significant employees in California. Without the maquiladora the California facilities would probably be located in Asia.
- 2) California draws great benefit from payments to Maquiladora employees and vendors. For example, in San Diego County in 1983, \$51 million of shopping center sales were to Mexican nationals.
- 3) Any attempt to discourage maquiladoras by eliminating the duty free treatment of U.S. origin components would take away any incentive for the U.S. companies and result in companies being sourced from outside the U.S.

In addition, Mr. Reneau enumerated several benefits derived from maquiladoras:

- 1) enables U.S. firms to compete with wholly foreign origin products
- 2) promotes cultural understanding on both sides of the border
- 3) provides educational opportunities/skill developments for the Mexican worker
- 4) facilitates commercial development of the California/Mexico border origin

In concluding his remarks, Mr. Reneau noted that the Western Maquiladora Association would like the World Trade Commission to assist in promoting the maquiladora industry. He offered the assistance of the membership of the Western Maquiladora Association as a resource to the state.

**SUBJECT IV -- MEXICO/GATT AND THE STATUS OF U.S./MEXICO  
BILATERAL TRADE NEGOTIATIONS -- IMPLICATIONS  
FOR CALIFORNIA**

**WITNESS -- Duane Zobrist, President, Foreign Trade Association  
of Southern California**

Mr. Zobrist discussed for the committee the implications of Mexico's entry into GATT and its impact on California's economy. He noted that in the past Mexico tended to be "inward" directed.

He made the following comments on Mexico's economy and trade relations with the U.S. and California:

- 1) The debt situation in Mexico has forced it to take steps to resolve its economic problems.
- 2) Mexico for years has had protected industries, but its entry into GATT will result in a fundamental shift away from protectionism to a more open, competitive economy.
- 3) The recently completed bilateral framework agreement between U.S. and Mexico will have major impact on California-Mexico trade relations.
- 4) Tremendous progress has been made with regard to intellectual property rights.
- 5) Mexico is extremely interested in California for a variety of reasons, particularly the size of its economy.
- 6) We will continue to see capital come into California from Mexico. Mexican companies are investing in California and providing jobs here and paying taxes.
- 7) There is full employment on the Mexican side of the border where maquiladora facilities exist - the only place in Mexico that has full employment.
- 8) A California office in Mexico City could be of particular value to smaller companies that don't have sufficient resources to promote themselves overseas.
- 9) Although Mexico City is far removed geographically from where the bulk of California/Mexico trade is, Mexico City still dictates policy for Mexico in all areas -- trade policy, environmental policy, etc...

**WITNESS -- Gabriel Szekely, Associate Director, Center for  
U.S./Mexico Studies, U.C. San Diego**

Mr. Szekely commented on the bilateral trade agreement, set to be signed on November 6 by the governments of the U.S. and Mexico. The signing of an agreement is the last in a series of steps taken by the de La Madrid administration to end the isolation of Mexico's economy, according to Mr. Szekely.

He noted that the major problem for Mexico has been the inability of businesses to expand non-oil exports despite incentives and an undervalued exchange rate.

He expressed a belief that the government through trade liberalization will attract investment, improve productivity and the quality of exported goods.

He also expressed a belief in the need for further liberalization of trade from the Mexican perspective, noting that:

- 1) Mexican exporters want greater access to U.S. markets.
- 2) Mexico wants greater certainty and precision on the products included in the General System of Preferences (GSP).
- 3) Mexico is concerned about protectionism sentiments in Congress.

In commenting on investment policy, Dr. Szekely noted that the Mexican administration has initiated liberalization of investment rules and reduction of red tape. In 1986 foreign investment totaled \$1 billion -- double the previous year's amount.

He concluded that there are "exciting opportunities as well as great challenges associated with trade and investments between the U.S. & Mexico, which could benefit California, particularly with the signing of a bilateral agreement."

**SUBJECT V -- ASSESSING TRADE AND INVESTMENT OPPORTUNITIES  
WITH MEXICO - A MEXICAN PERSPECTIVE**

**WITNESS -- Carlos Tejeda, Vice President and General  
Manager, Bancomer**

Mr. Tejeda, noting that his remarks were personal and not the official views of Bancomer, made the following comments on U.S.-Mexico and California-Mexico economic ties:

- 1) Mexico is the U.S.'s third largest trading partner.
- 2) California banks have billions of dollars in deposits from Mexican nationals/residents.
- 3) Trade balance between U.S./Mexico is favorable to the U.S. (\$300 million).
- 4) The economy is beginning to open up in Mexico.
- 5) Attitude of the public and private sectors in Mexico is more positive now about the economy.

- 6) New and coherent policies on exchange rates, interest rates, industrial efficiency, subsidy management and bank integrity are now in operation.
- 7) Mexico still has a long way to go economically but progress is being made on this front.
- 8) There are approximately 8,000 companies in Mexico with foreign capital.
- 9) In 1987 approximately \$1.4 billion was being invested in Mexico from foreign sources.
- 10) The new debt to equity swap program has encouraged further investment in Mexico but that program has been temporarily suspended because of the amount of dollars entering Mexico.
- 11) Mexican banks are aware of the continuing interest from U.S. sources in the expansion of maquiladoras.
- 12) California and Mexico form a very tightly knit-economic and geographical area.
- 13) The 2,000 mile border between Mexico and the U.S. does not separate us, it unites us.

According to Mr. Tejeda, these factors make the consideration of a California office in Mexico City very opportune.

In commenting on the PRI candidate for the presidency of Mexico, Salinas de Gotari, Mr. Tejeda observed that the candidate's economic policy is based on four points:

- 1) encouraging private investment
- 2) curbing public spending
- 3) promoting non-oil exports
- 4) protecting Mexico's buying power

He also noted that Salinas de Gotari will probably not dramatically reshape Mexico's independent foreign policy. However, he will most likely encourage foreign investment in areas that will contribute to technological modernization, and in doing so expand the export capabilities of Mexico.

**SUBJECT VI -- MODELS OF COOPERATION BETWEEN CALIFORNIA AND  
MEXICO -- A FRAMEWORK FOR CALIFORNIA STATE  
GOVERNMENT**

**WITNESS -- Al Araiza, Manager, Mexico Projects, San Diego  
Gas & Electric**

Mr. Araiza described for the committee the relationship it has established with the Commission Federal de Electricidad in Mexico (CFE) because it needed to supply its rapidly growing customer base in the San Diego region.

It looked to Mexico as a source of energy, particularly because CFE was doing so well in generating electricity in geothermal fields outside of Mexicali.

San Diego Gas & Electric began talking to the commission in 1978. By 1980, San Diego Gas & Electric had signed two major documents with CFE to send energy to the San Diego area.

Mr. Araiza noted that Mexico has been extremely competent in delivering electric energy 24 hours a day. As much as 10% of the electric energy consumed in the San Diego area comes from Mexico.

At the same time, Mexico is the recipient of several million dollars of much needed foreign currency.

Noting that San Diego Gas & Electric was "pioneering" when it began to establish the relationship with CFE, Mr. Araiza commented that a California office in Mexico would have been welcomed when the negotiations between San Diego Gas & Electric and CFE were taking place. It would have facilitated the agreement for both sides.

Currently, according to Mr. Araiza, Mexico is seeing the benefits derived from its agreement with San Diego Gas & Electric and is now discussing much more ambitious plans for possible energy exports to the the Los Angeles area and perhaps other states.

(INTEREST IN MAQUILADORA OPERATIONS)

San Diego Gas & Electric is also looking at Maquiladora opportunities, according to Mr. Araiza. There are processes and products needed by San Diego Gas and Electric that could be manufactured in Maquiladora plants in the Tijuana/Baja California area.

(COMMENTS ON THE TASK FORCE REPORT)

Mr. Araiza expressed agreement with the recommendations of the Task Force, particularly the need for establishing a California presence in Mexico City.



In concluding his remarks he noted it is important to remember the need to strengthen the unique relationship between California and Baja California and recommended this be accomplished either through the Commission of the Californias or some other appropriate vehicle.

**WITNESS -- Ethelda Singer, Vice President, West Coast Chapter  
Sister Cities International**

Ms. Singer described for the committee the role of Sister Cities International - a non-profit totally voluntary nation-wide organization. With a small staff in Washington, D.C., it promotes the establishment of sister city relationships to foster understanding and cooperation between the peoples of various nations and cities.

Ms. Singer noted that Mexico has the second highest number of sister city relationships with California (150). The real importance of the program according to Ms. Singer is the "closeness of the people involved which allows for the development of trust. That trust is often the grounds for trade development," according to Ms. Singer.

Sister Cities International and the California Sister Cities would be supportive of a California Trade office in Mexico City, commented Ms. Singer. She also noted that the City of Nagoya, Japan, opened a trade office in Los Angeles because of its sister city relationship.

Ms. Singer hoped that a mutually beneficial relationship between the California office in Mexico City and the California-Mexico Sister Cities could be established.

**WITNESS -- Dr. Jorge Bustamante, President, Colegio de la  
Frontera Norte**

Dr. Bustamante discussed the variety and scope of academic relationships between the educational institutions of California and Mexico. He noted that Colegio de la Frontera Norte has four offices in the border area whose main objective is to understand "the border phenomena at large."

He described the unique relationship with San Diego State University with whom it has just signed an agreement based on reciprocity including shared teaching, consulting and border research.

In discussing a California office in Mexico City, Dr. Bustamante expressed a belief that the Mexico City office could also benefit California's relationship with the other states of Mexico. He also made the following comments:

- 1) California has the largest population of Mexican nationals from all over Mexico, not just the border.
- 2) From an economic, cultural, social and efficiency perspective the idea of a California office in Mexico City office is good policy.
- 3) The Mexico government is highly centralized , i.e., decisions and policy emanate from the capital.
- 4) The California office in Mexico City could be an important instrument in reaching the interior of Mexico which is home to many Mexican nationals residing in California.

Dr. Bustamante noted for the committee that his institution has been granted permission by federal agencies in both Washington and Mexico for satellite communications. Graduate students from both Mexico and California will participate in "teleconferencing" on a massive scale.

Mexico's education institutions could be useful in educational exchanges according to Dr. Bustamante who also suggested more "teacher exchanges" and the possibility of Mexican educators being used here to work on the high drop out rate of California students of Mexican heritage.

**WITNESS -- Francesco Herrera, Director, Office of Binational Affairs, City of San Diego**

Mr. Herrera provided the committee with a synopsis of the background and origin of the office and how this office interacts with Tijuana, Mexico. He also noted for the committee that:

- 1) The growth of the metropolitan San Diego/Tijuana area contributed to the need for greater interaction.
- 2) The fundamental purpose of the office is to strengthen communications and to solve problems while increasing awareness of Mexico.
- 3) The office deals with such diverse issues as: economic development, tourism, disaster preparedness, trade and cultural exchanges.

- 4) The City of San Diego would be willing to assist the state as it considers expanding its relationship with Mexico through the establishment of a California office in Mexico City.

**WITNESS -- Elsa Saxod, Assistant Director, Office of  
Binational Affairs, City of San Diego**

Ms. Saxod noted that the Select Board on Binational Issues has recently reviewed and given its approval of a number of the recommendations by the Task Force on California-Mexico Relations, including its unanimous support for:

- 1) the establishment of a Mexico City office,
- 2) the establishment of an advisory board on California-Mexico Relations,
- 3) a more active role for the Governor's Office in Washington, D.C. to further California/Mexico interests.
- 4) more innovative programs in state government to encourage and permit greater interaction between the governments of Mexico and California.

**WITNESS -- Paul Flores, Director, Southern California  
Earthquake Preparedness Project, Governor's Office  
of Emergency Services**

Mr. Flores discussed the U.S./Mexico Earthquake Preparedness Project. He noted that it is in the interest of both nations to work cooperatively on disaster preparedness. He commented on the disruption to business and trade between California and Mexico that could result from a major disaster and indicated that effective binational emergency and crisis management are vitally important to reduce the impact of a natural disaster.

**WITNESS -- Frank Marquez, Director, Office of  
California-Mexico Affairs**

Mr. Marquez offered several comments to the committee on behalf of Mr. Gilbert Avila, a member of the Commission of the Californias. Mr. Marquez noted that Mr. Avila took exception to the recommendation of the Task Force to eliminate delegates. He noted that all delegates to the Commission of the Californias are volunteers who give freely of their time and money to participate on various committees of the commission. The delegates, according to Mr. Marquez, have been responsible for a number of important recommendations and they serve a useful purpose.

Presentation by

THE LITTLE HOOVER COMMISSION

to the

ASSEMBLY COMMITTEE ON INTERNATIONAL TRADE  
AND INTERGOVERNMENTAL RELATIONS

November 4, 1987



## I. INTRODUCTIONS

- o Bob O'Neill, Executive Director
- o Mary Anne Chalker, Commissioner, Chairperson of World Trade Subcommittee
- o Deanna J. Marquart, Consultant

## II. STUDY METHODOLOGY

- o Performed in response to AB 2685 (Killea)
- o Reviewed state-level administration of California's world trade program and its overseas offices
- o Study issued in July 1987

## III. GENERAL FINDINGS

- o Study reaffirmed the importance of world trade to California's economic well being. For example, by the year 2000, exports and imports together are expected to account for one-quarter of the State's total output
- o Until recently, California has had a sporadic interest and a mediocre trade record in promoting world trade and investment. As a result, other states have been more active than California in the past four decades in seeking world trade
- o Our study applauds the State of California for its recent efforts to embark upon a more aggressive program to develop world trade markets and promote foreign direct investment
  - California has increased its world trade program budget from approximately \$1 million annually to more than \$10 million
  - State is actively participating in key world markets and has stimulated exports and encouraged direct investment
- o While California's recent efforts to foster world trade have been commendable, the State needs to take additional steps to improve the organization, administration and operation of its world trade program

## IV. MAJOR FINDINGS

1. California's world trade program is organizationally dispersed among numerous state agencies and lacks a formal structure for accountability
  - o Large number of autonomous or semi-autonomous state agencies
    - Governor's Office
    - State World Trade Commission
    - Department of Commerce

- Department of Food and Agriculture
- California Energy
- o No single agency responsible for overseeing and controlling the State's world trade program
- o Uncertain chain-of-command
- o Administrative structure is built upon informal relationships of staff in key agencies
- o Current system of management will become unwieldy as the world trade program grows
- o Difficult for Governor and Legislature to identify how funds are being used and measure the impact of funds
- o Need to clarify and define administrative responsibilities and protocols
- 2. Legislature needs to assume a more visible and coordinated role in world trade policy development
  - o Growth of world trade program will require additional programs, services and resources
  - o Create additional demands for policy guidance and legislative oversight
  - o Wide-ranging legislative involvement in world trade
    - Senate Select Committee on the Pacific Rim and the Maritime Industry
    - Assembly Standing Committee on International Trade and Intergovernmental Relations
    - Other Senate and Assembly Committees routinely hold hearings on legislation that has an impact on world trade
  - o Need for a committee responsible for:
    - Overseeing the State's world trade program
    - Coordinating policy development
    - Acting as a clearinghouse for trade-related legislation
- 3. California's world trade protocol efforts are not well organized
  - o State has been hesitant to institute a protocol function in support of the State's world trade program

- o Not made a determination whether public funds should be committed to diplomatic ceremony and etiquette
  - o State needs a coordinated and funded protocol operation to enhance its world trade efforts
4. California has demonstrated a strong commitment to world trade that gives it visibility and legitimacy in world marketplaces
- o Placement of the responsibility for the overseas offices in the Governor's Office provides California a higher profile than world trade programs of other states
  - o Concentrated on making all units of state government aware of their impact on international trade and investment through its "internationalization" process
  - o Demonstrated a capacity for innovation and record of accomplishment in a relatively short time frame

#### IV. RECOMMENDATIONS

1. Establish a Governor's Office of World Trade to oversee and facilitate the development of formal mechanisms for accountability and coordination of world trade activities in state government. Specifically, this Office should:
  - o Have a full-time world trade coordinator to be the Director of the Governor's Office of World Trade
  - o Include a Protocol Division for handling interaction with visiting dignitaries
  - o Act as a world trade information clearinghouse
  - o Prepare an annual report to the Legislature on state government's effort to promote world trade activities
2. Relocate export promotion activities and the Export Finance Program from the California State World Trade Commission to the California Department of Commerce
3. Provide the California State World Trade Commission the responsibility for raising and allocating private funds for California's world trade program
4. Establish a Joint Legislative Committee on World Trade

11-4/world trade



## DEPARTMENT OF FOOD AND AGRICULTURE

1220 N Street, Room 409  
Sacramento, CA 95814

November 4, 1987



AGRICULTURAL EXPORT INCENTIVE PROGRAM  
Testimony by  
GEORGE W. URDA, CHIEF EXECUTIVE OFFICER  
for the  
COMMISSION ON CALIFORNIA STATE GOVERNMENT  
ORGANIZATION AND ECONOMY

## INTRODUCTION

I am George Urda, the Chief Executive Officer of the Agricultural Export Incentive Program. I was appointed to this position in May 1986 on the basis of 25 years of experience in foreign marketing in consumer goods and commodities.

## BACKGROUND

The Department of Food and Agriculture Export Incentive Program, created with the enactment of AB 1423, became effective on January 1, 1986 and became operational in May 1986. Testimony was presented at the previous Commission Hearing, giving the full background, description, and progress of the program.

To summarize briefly, the Program provides State matching funds to qualified California organizations for foreign market promotion of food and agriculture products. The Program is also developing an International Trade and Information System for trade leads and other important international marketing information, and has organized aggressive promotional activities for California organizations such as the Golden Bear Pacific Rim Mission, Trade Shows and Supermarket Chain promotions.

## RESPONSE TO COMMISSION'S RECOMMENDATIONS

Several of the Commission's recommendations concern, directly or indirectly, the Agricultural Export Incentive Program and I would like to respond to these.

First, on behalf of the Department of Food and Agriculture, I would like to thank the Commission for its recognition of trade development accomplishments of the Agricultural Export Incentive Program to date. The positive businesslike approach toward improving the State's world trade program is gratifying and is appreciated.

Allow me to respond to those recommendations that concern the Department of Food and Agriculture.

I. COORDINATION BY THE GOVERNOR'S OFFICE      We fully concur with

the recommendation as to the coordination of international trade and investment activities by the Governor's office. In fact, excellent progress has been made in this area through regular coordination meetings with representatives of the Governor's office, the World Trade Commission, the Department of Commerce, the Energy Commission, and the Department of Food And Agriculture.

In addition, we are in close contact with the Governor's office, the World Trade Commission, the Overseas offices and other Departments on a constant information sharing basis.

An important media of coordination which must be noted is the Agriculture Export Program Advisory Committee which has as regular members a representative from the World Trade Commission, the Secretary of Business, Transportation and Housing, appointees of the Governor's office, and the Legislature. Decisions as to grants of matching funds are based on the Committee's recommendations, and through the committee, the various agencies and facets of State government are kept informed as to activities of the Export Program.

In addition, various functions of the Agriculture Export Program are coordinated with the Governor's office and other State agencies. The following are several examples:

a. The Agricultural Electronic Trade Lead system will match buyer inquiries with California producers and exporters, and also California exporter offers with overseas buyers. It is being implemented in a manner that will enable compatibility with and access to all State departments and ultimately be on line with the London and Tokyo offices. The system will be designed so that it could become the base for a total world trade information center if so desired.

b. Agricultural trade shows and other promotional events are coordinated with the World Trade Commission and the overseas offices.

c. International visitor appointments are coordinated with the Governor's office.

In summary, with the appointment of Jim Robinson as the Coordinator for international activities, and Greg Hartzman as the Coordinator for international visitors, the level of coordination is very high, and is working well.

II. CENTRALIZATION OF WORLD TRADE ACTIVITIES In regard to the concept of attempting to centralize all international trade activities within one department, from my 35 years of international trade experience in both private industry and government, and the experience of the Federal government in more than 30 years of active international trade development, I can state the following:

Congress has on numerous occasions, considered centralizing international trade activities under one organization, and has always decided against it. Within the last few days, I have spoken with several people who have had long experience with the Foreign Agriculture Service, as to why this has been so. The answer was that the individual divisions, such as agriculture, not only have the expertise, but the day to day connections, contacts, rapport, and long standing working relationships with the industry sectors with whom they work. This is vital to the success of industry-government cooperation, and particularly in international market development.

Industry has both the professional knowledge and, of course, the strongest interest in assuring success of their international programs. Involving the private sector and providing the vehicle for industry to conduct trade development is the basic reason for the success of the Federal agriculture market development program. It is also the basic concept of the California program. This close contact with industry is particularly significant and important in California where we have a broad and strong system of State Marketing Boards and Commissions, Cooperatives, and industry Associations.

The Governor's office has emphasized that the Governor's goal is to internationalize all state agencies and to have all agencies develop the capability to respond effectively to world trade issues and developments. We believe this internationalization of all concerned agencies and their continued specialization in their fields is the most effective road to effective trade and investment development.

### III. PROGRESS AND SUCCESS OF THE EXPORT INCENTIVE PROGRAM

Initial contracts with industry for export promotion were let in September 1986, a little over one year ago. This is actually a very short period of operation for market development which normally requires several years to get results.

Nevertheless, we have seen some excellent results in both individual company programs and the overall export sales. To date, we have had over 280 applications from industry. We have funded 228 contracts for international promotion programs totalling \$24 million, of which the State's share is \$11 million.

The number of applicants is in itself an indication that one of the prime objectives of the program is being achieved--to expand the number and scope of organizations actively selling and promoting agriculture exports.

The key tools in judging the value of the program are the semi-annual and annual progress reports required of each participant and the evaluation of the effectiveness of promotional programs performed by staff and the Advisory Committee.

In my previous testimony, I gave examples of significant successes by individual participant's programs which resulted in concrete sales increases. We have had many more such success stories so I will not repeat these today. Instead, I would like to share with you two figures related to exports of California agriculture products.

1. Through the successes being reported to date by individual companies, we can attribute a minimum of 40 million dollars in increased exports as a direct result of participation in the Export Incentive Program.

2. In 1986, export of higher value products such as nuts, dried fruit, fruit, vegetables and wine increased by almost 300 million dollars. This more than compensated for the serious declines in commodity crops affected by worldwide subsidies (cotton, rice and wheat). Over 80% of our AB 1423 funds have been targeted to the higher value crops. We realize that the decline in the value of the dollar was partially instrumental in this increase, but we believe that the aggressive promotion in international markets by California companies made possible by the Program also played a large part in the increases.

3. I am pleased to report that for the first two quarters of 1987, exports of California cotton and rice have begun to show major increases; in the case of cotton, they have just about doubled 1986 figures. This is due to Federal policy in regard to matching subsidies of other countries, and will help to bring exports back to former levels in these field commodity crops.

With the comeback in field crop exports, and the continuing increased levels of exports in our higher value products seen in 1986, we believe California agriculture exports are on their way to a very substantial increase in 1987.

The Agricultural Export Incentive Program was wisely constructed, and has and will continue to play an important role in maintaining and increasing our agriculture exports.



Testimony  
by  
Barbara Crowley, Vice Chair  
California Energy Commission

Presented to the Assembly Committee  
on International Trade and Intergovernmental Relations  
Interim Hearing, November 4, 1987  
Los Angeles, California

I. INTRODUCTION

Thank you for inviting me to participate in this interim hearing on California's world trade activities.

In my comments today, I would like to emphasize a few points to address the California Energy Commission's (CEC) role in international trade.

- A. We have designed a low-cost program which responds to a growing worldwide demand for energy technologies to stimulate economic expansion. It is not uncommon to see electricity demand in developing nations increasing at rates two to three times greater than the annual demand in the U.S. and California.
- B. The Governor has deemed it important to enhance international trade opportunities for two significant sectors of California's economy: agriculture and energy. In 1986, California's energy firms generated \$69 billion, the highest revenue-producing sector in the State.
- C. In most nations, energy development is controlled by government agencies. This differs from the U.S., which appears to be the exception rather than the rule. In these other nations, when energy technologies and project development services are needed through imports, business is typically conducted or enhanced by government-to-government relations.

For these reasons, the Governor has directed the CEC to conduct a specialized export program to supplement the efforts of the California World Trade Commission and Department of Commerce.

I will respond to the findings of the Little Hoover Commission Report, but first I would like to provide some additional comments about the CEC's interest and role in international trade.

## II. THE CEC'S ENERGY TECHNOLOGY EXPORT PROGRAM

Authority for the CEC's Energy Technology Export Program is based on broad mandates to accelerate the development of the State's energy technologies (Public Resources Code Sections 25601 and 25602) and evaluate energy development trends which impact the state (Public Resources Code Section 25604). In addition, year-to-year funding is appropriated through the Budget Act. (See Attachment A)

The CEC acts as a facilitator or "marriage broker" to match international buyers with California energy firms which supply technologies and energy project development experience. As a result, the CEC must be aware of the needs of each party and sensitive to a variety of business methods.

The CEC's domestic programs continue to achieve international recognition for success in promoting the use of new energy technologies and are rich in staff experience. Many of the ingredients for success and pitfalls to avoid can be learned from our previous efforts and transferred to developing nations.

We were pleased that over 400 California-based firms expressed interest in the CEC's support to help export their energy technologies and energy-related services. This demand was greater than expected. An estimated 90 percent of these firms are small businesses.

Over the last 2-1/2 years, the CEC has received delegations from 48 foreign countries who have expressed interest in energy technologies from California. It is our observation that many of these nations do not have sophisticated electricity grid systems like those found in the U.S. Instead power, if available, is delivered in a decentralized manner requiring special remote applications. Some common needs include: industrial uses, lighting, telecommunications, water pumping, refrigeration, and village or rural electrification. As one visiting foreign official from the People's Republic of China states, "We are interested in technology and know-how to develop our indigenous resources and meet our growing energy needs. We are also interested in suitable technologies, be it oil, gas, coal, or alternatives such as geothermal, solar, and energy conservation." The CEC has received delegations from the countries listed on See Attachment B.

The CEC's Energy Technology Export Program is in its third year of authorization and has accomplished the following:

- o Sponsored an International Roundtable attended by representatives from 24 countries to discuss global energy concerns and establish a foundation for mutually beneficial activities. (June 1985)
- o Co-sponsored the annual Renewable Energy Technology Symposium and International Exhibit (RETSIE) for the last five years. The conference is held every year in Anaheim to attract international

visitors to buy products from California energy companies and address current energy issues (1982-87).

- o Completed a technical exchange mission giving a representative from Sweden an opportunity to learn about energy planning and development activities in California.
- o Conducted a joint exhibit with the World Trade Commission at the Elenex Trade Show in Hong Kong in May 1986.
- o Organized a Technical Exchange Mission comprised of experts from Jordan's Energy Ministry and Royal Scientific Society to tour energy project sites in California and to conduct business discussions with California energy companies. This led to an agreement whereby the CEC will help Jordan develop a wind farm and other energy projects by facilitating business agreements with California firms and by helping to obtain financing. (February 1987)
- o Published studies identifying international market prospects for eight technology areas. (April 1987)
- o Published a directory listing 400 California companies that want to participate in the CEC program to export their products and services. (April 1987)
- o Conducted three workshops to present findings from the CEC's program and solicit comments from over 240 energy industry attendees. (April 1987)
- o Completed studies which highlight successful export ventures and evaluate California's chief export competitors in international markets. (April 1987)
- o Published an export sourcebook which identifies assistance programs offered by State and Federal agencies and international donor organizations to help California energy companies. (April 1987)
- o Co-sponsored a Photovoltaic Conference in New Orleans, Louisiana providing opportunities for industry vendors to meet buyers from 19 foreign countries. (May 1987)
- o Conducted a reverse trade mission to introduce representatives from 18 nations to California's geothermal energy industry. The mission included project site tours in California, business discussions with 60 California equipment vendors, and a workshop co-sponsored by the California World Trade Commission's Export Finance Office. (October 1987)



- o Undertaken discussions with the Philippines' Ministry of Health which should result in a joint project involving partners from the Philippines, Japan, Canada, Australia, and California. This public health initiative in the Philippines will incorporate installations of energy technology equipment from at least two California firms. (October 1987)

The variety of forums and activities conducted should produce energy project results and installations with one to three year timeframes, which is consistent with near-term trade expectations.

Planned activities in the near future include:

- o A business assistance project to help California firms in a variety of export needs, including identifying potential energy needs of foreign governments, evaluating project financing, and addressing energy-related trade law or patent law constraints. (December 1987)
- o An overseas trade mission planned in conjunction with the California World Trade Commission (CWTC) to east Asia to introduce a delegation of California energy firms to appropriate individuals and organizations in up to three countries. (March 1988)
- o Technical exchange missions to bring technical experts from other countries to California for training and technology development experience.
- o Workshops to present market data and information on international opportunities to California businesses.

As an illustration of the CEC's activities, I would like to outline the steps we took in conducting a recent reverse trade mission in October 1987. Please note the energy technology experience required. (See Attachment C)

### III. RESPONSE TO THE LITTLE HOOVER COMMISSION REPORT

We generally agree that as programs expand, constant attention to the need for re-evaluation of activities is needed.

In regard to the need for coordination, the CEC has continually coordinated with the key agencies and arms of government involved in international trade.

Chairman Imbrecht is the CEC's representative on the Governor's overseas office working group which meets monthly to plan and discuss joint projects and opportunities.

The CEC confers regularly with the CWTC on the development of contract RFPs and the selection of contractors. The CEC also regularly involves the CWTC's Export Finance Office in workshop presentations on financing. In addition, the CEC confers regularly with the Department of Commerce to bring new energy businesses to California.

At the invitation of the Governor's Office, the CEC has delivered materials on California's energy industry and project successes to the State's overseas offices in London and Tokyo. As a matter of fact, the CEC was the first organization to have materials displayed in the Tokyo office.

In regard to the existing organizational approach for the state's world trade programs, we see the existing set-up working well and see no need for major changes.

\* \* \* \* \*

There are three major points in summary:

- o In most countries other than the United States, energy is a governmental function. Energy product and service sales therefore require the government-to-government link which the CEC has already established.
- o Energy warrants a specific trade program because, as with agriculture, it is a major component of the California economy and is an area where California is a recognized world leader.
- o The CEC's trade program is designed to work in conjunction with the State's trade programs and regularly uses the services of these programs.

It is our belief that the CEC is best suited to representing California's largest industry, and that the Governor and Legislature have recognized the importance and need for a specialized export

program which stimulates mutual benefits for California's energy industry and international partners. We will continue to coordinate our efforts with the Governor's Office and the state's lead agency on international trade, the World Trade Commission, and California's overseas offices.

Attachment A  
Energy Technology Export Program  
Annual Budget

<u>Fiscal Year</u>	<u>Contract \$</u>	<u>Staff</u> <sup>1/</sup>
FY 1985-86	\$190,000	1.0 PY
FY 1986-87	\$425,000	1.6 PY
FY 1987-88	\$225,000	3.0 PY+
FY 1988-89 (Proposed)	\$250,000 (Proposed)	4.0 PY

<sup>1/</sup> All staff increases have occurred from internal CEC redirection.

Attachment B  
International Delegations Received  
by  
The California Energy Commission  
(Since 1985)

Antigua	Italy
Argentina	Jamaica
Australia	Japan
Barbados	Jordan
Bolivia	Mali
Brazil	Malasia
Canada	Mexico
Chile	Morocco
China	New Zealand
Costa Rica	Nigeria
Cyprus	Panama
Denmark	Philippines
Djibouti	St. Lucia
Dominican Republic	Spain
Ecuador	South Korea
England	Sweden
El Salvador	Sudan
Egypt	Taiwan
France	Tanzania
Greece	Thailand
Guatemala	Turkey
Hungary	Venezuela
India	West Germany
Indonesia	Yugoslavia

Attachment C

Energy Technology Export Program

Planning Steps Required to Conduct  
Geothermal Tour/Reverse Trade Mission  
October 1987

1. Meet with representatives of the geothermal industry trade group to discuss the trade mission concept and determine industry commitment. February 1987
2. Identify sources of funding and propose a co-sponsored effort with the U.S. Department of Energy, the World Bank, the U.S. Agency for International Development, Los Alamos National Laboratory, and the California Energy Commission. February 1987-  
April 1987
3. Confer with representatives of geothermal companies to select country invitees by considering their geothermal resource conditions (temperature and flow rates), status of project development, and level of technical expertise and influence over decision making. March 1987
4. Send invitations to foreign government representatives and inquire about specific geothermal energy needs and prospects. Gather information on foreigner's requests about technology applications, equipment specifications, reservoir drilling, and resource assessment. April 1987-  
June 1987
5. Conduct pre-tour meetings with equipment vendors, power plant operators, and operation and maintenance specialists to express foreign visitors' needs and conduct "dry run" of tour events and presentations. June 1987-  
August 1987
6. Confirm final tour logistics, develop briefing materials and technology facts sheets, and organize content and speakers for post-tour workshops. August 1987
7. Distribute tour advertisements, press releases, and organize social receptions. September 1987
8. Conduct tour, business meetings, and workshops involving representatives from 18 countries and 60 California equipment vendors. October 1987
9. Organize follow-up activities, correspondence, questionnaires, and complete post-tour report. November 1987



CALIFORNIA LEGISLATURE  
ASSEMBLY INTERNATIONAL TRADE  
AND INTERGOVERNMENTAL RELATIONS COMMITTEE

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HEARING ON THE "INTERNATIONALIZATION  
OF CALIFORNIA STATE GOVERNMENT"

FOCUS ON THE  
ORGANIZATION AND ADMINISTRATION OF  
THE STATE'S INTERNATIONAL TRADE AND  
INVESTMENT PROGRAMS

NOVEMBER 4, 1987  
LOS ANGELES, CALIFORNIA

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STATEMENT BY THOMAS N. TEOFILLO  
REPRESENTING THE PRIVATE SECTOR  
INTERNATIONAL TRADE AND TRANSPORTATION





MADAM CHAIRMAN, I AM TOM TEOFILO, SENIOR VICE PRESIDENT OF KOREA SHIPPING WEST AMERICA, AGENT FOR KOREA SHIPPING LINE, A KOREAN NATIONAL FLAG OCEAN CARRIER OPERATING BETWEEN MAJOR FAR EAST PORTS AND THE WEST COAST OF THE UNITED STATES. I AM CURRENTLY CHAIRMAN OF THE SOUTHERN CALIFORNIA COORDINATING COUNCIL, VICE PRESIDENT OF THE INTERNATIONAL BUSINESS ASSOCIATION OF SOUTHERN CALIFORNIA, AND SECRETARY OF THE FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA. THIS YEAR, I SERVED AS CHAIRMAN OF THE LOS ANGELES CHAMBER'S OBSERVANCE OF WORLD TRADE WEEK IN SOUTHERN CALIFORNIA. I BELIEVE THAT I WAS INVITED HERE TODAY, TO SPEAK ON BEHALF OF PRIVATE SECTOR INTERNATIONAL TRADE AND INTERNATIONAL TRANSPORTATION INTERESTS. I WOULD LIKE TO STATE THAT MY COMMENTS ARE PURELY MY OWN AND THAT I DO NOT SPECIFICALLY REPRESENT ANY OF THE ORGANIZATIONS THAT I HAVE LISTED.

THANK YOU, CHAIRWOMAN KILLEA, FOR THE OPPORTUNITY TO STATE MY VIEWS TODAY. I AM PLEASED AND A BIT HUMBLLED TO BE A PART OF THIS HEARING, NOTING THE STRENGTH OF GOVERNMENT REPRESENTATIVES SEATED AT THE DAIS, AND THE FORMIDABLE REPRESENTATION THAT YOUR OFFICE HAS ARRANGED AS PANEL PARTICIPANTS.

AS ONE IN THE INTERNATIONAL TRANSPORTATION INDUSTRY, LET ME SAY THAT WE HAVE LONG BEEN FRONT LINE OBSERVERS OF TRADE IMBALANCE. IT IS WELL KNOWN, THAT WHEN CARRIERS ARE FULLY LADEN IN BOTH DIRECTIONS OF A TWO WAY TRADE, IN THIS CASE EASTBOUND AND WESTBOUND, COST EFFICIENCIES ARE ATTAINED AND TRANSPORTATION COSTS MAY BE STABILIZED. FOR THE PAST TEN YEARS THE TRANSPACIFIC

CARRIERS HAVE STRUGGLED WITH A NUMBER OF DIFFERENT FACTORS THAT HAVE CAUSED TARIFF RATE AND SERVICE EROSION. NOT THE LEAST OF THESE HAS BEEN THE CONTINUED TRADE DEFICIT. THIS IMBALANCE DRIVES UP OPERATING COSTS, WHILE CARRIER COMPETITION FOR IMPORT FREIGHT CONTINUES TO DRIVE DOWN REVENUE LEVELS. ADDITIONALLY, YOU MAY SEE FREIGHTERS LEAVE THE WEST COAST WITH SEVERAL HUNDRED EMPTY CARGO CONTAINERS, REPOSITIONING THEM TO BUSTLING FAR EAST PORTS OF CALL, TO BE RELOADED FOR THE "REVENUE HAUL" BACK TO THE STATES. LAST YEAR THE TWO PORTS IN THE SAN PEDRO BAY HANDLED ABOUT 110 MILLION METRIC REVENUE TONS OF CARGO. APPROXIMATELY TWO-THIRDS OF THAT VOLUME WAS IMPORTS. ALSO, LAST YEAR, U. S. CUSTOMS STATISTICS FOR THE LOS ANGELES CUSTOMS DISTRICT, REPORTED THAT THE VALUE OF IMPORT GOODS WAS OVER \$48 BILLION, WHILE EXPORTS ACCOUNTED FOR JUST UNDER \$20 BILLION.

I BELIEVE THE PRIVATE SECTOR IS VERY MUCH AWARE OF THE TRADE IMBALANCE; ONE REASON BEING THE HIGHER COST OF OPERATION, THE PHENOMENON THAT ACCOMPANIES THE ACTUAL IMBALANCE OF FREIGHT MOVEMENT.

THE CALIFORNIA STATE WORLD TRADE COMMISSION IS RECOGNIZED BY THE TRADE AND TRANSPORTATION COMMUNITY AS HAVING MADE INROADS IN FOSTERING AND DEVELOPING CALIFORNIA EXPORTS.

I AM AWARE THAT THE CALIFORNIA STATE WORLD TRADE PROGRAM INVOLVES FOUR MAJOR COMPONENTS: EXPORT PROMOTION, INVESTMENT ATTRACTION, TOURISM PROMOTION AND ADVOCACY. I FEEL MOST COMFORTABLE

DISCUSSING EXPORT PROMOTION AS RELATED TO THE EFFORTS OF THE CALIFORNIA STATE WORLD TRADE COMMISSION. ADDITIONALLY, I WOULD LIKE TO COMMENT ON CERTAIN RECOMMENDATIONS BROUGHT OUT IN THE LITTLE HOOVER COMMISSION REPORT.

MY PERSPECTIVE OF THE CALIFORNIA STATE WORLD TRADE COMMISSION IS INTERESTING BECAUSE DURING THE COMMISSION'S FIRST YEARS, I WAS EMPLOYED AT THE LONG BEACH HARBOR DEPARTMENT IN THE TRADE DEVELOPMENT DIVISION. INITIALLY, THE COMMISSION APPEARED REMOTE, OBSCURE AND CERTAINLY POLITICAL, IN THE MOST "PUBLIC-SECTOR" MEANING OF THE WORD. OVER THE PAST COUPLE OF YEARS, THOUGH, AS I HAVE MADE MY OWN TRANSITION FROM THE PUBLIC SECTOR, THE PORT, TO THE PRIVATE SECTOR, I HAVE GAINED A GREATER RECOGNITION OF THE PRIVATE SECTOR TENDENCIES OF THE COMMISSION. IT IS IN FACT "PRIVATE-SECTOR FRIENDLY." IN THAT I KNOW A FEW OF THE COMMISSION MEMBERS PERSONALLY, I AM NOW AWARE OF THE COMBINED EXPERTISE THAT EXISTS WITHIN THE COMMISSION. AND, I AM IMPRESSED! FREQUENTLY NOW, I FIND MEMBERS OF THE STAFF INCLUDING THE EXECUTIVE DIRECTOR, GREG MIGNANO, AND THE TRADE SPECIALISTS, AS WELL AS MEMBERS OF THE EXPORT FINANCE OFFICE STAFF ENTHUSIASTICALLY PROMOTING TRADE COMMUNITY COOPERATION IN THEIR DEDICATED EFFORT TO PENETRATE THE RANKS OF CALIFORNIA BUSINESS AND DEVELOP EXPORTS. EACH MONTH MR. MIGNANO, OR ONE OF HIS STAFF, ATTEND A MEETING OF THE SOUTHERN CALIFORNIA COORDINATING COUNCIL, AN ASSEMBLY OF ROUGHLY 35 TRADE CLUBS AND ASSOCIATIONS INCLUDING TRADE ORIENTED GOVERNMENT AGENCIES OFFICED IN SOUTHERN CALIFORNIA. THIS TYPE OF GRASS ROOTS INTERACTION PROVES MOST VALUABLE FOR ALL CONCERNED, AS DISCUSSIONS

COVER EVERYTHING FROM TRADE MISSIONS AND TRADE LEADS TO LEGISLATIVE ISSUES. ATLAS PROGRAM FLIERS AND INPUT SHEETS INITIALLY RECEIVED WIDESPREAD DISTRIBUTION THROUGH COOPERATION BETWEEN THE STATE'S WORLD TRADE COMMISSION AND THE SOUTHERN CALIFORNIA COORDINATING COUNCIL.

WITH ITS ROUGHLY TEN TRADE SHOWS PER YEAR, COORDINATION FOR EXPORT DEVELOPMENT AND INVESTMENT THROUGH THE NEWLY ESTABLISHED OVERSEAS OFFICES AND PERSONAL ATTENTION TO THE NEEDS OF THE TRADE COMMUNITY, I SEE THE CALIFORNIA STATE WORLD TRADE COMMISSION AS ALREADY HAVING PROVEN ITSELF A SUCCESSFUL ENTITY. WITH ITS CLEAR MISSION, THERE IS NO QUESTION THAT MOMENTUM HAS BEEN ACHIEVED. AND YET, IT IS TIMELY AND APPROPRIATE TO QUESTION ACCOUNTABILITY, COORDINATION AND THE LEGISLATIVE ROLE. I JOIN MANY IN THIS ROOM, CHAIRWOMAN KILLEA, WHO BELIEVE THAT IT IS APPROPRIATE TO NOT ONLY REVIEW ACCOMPLISHMENTS, BUT ALSO THE ORGANIZATION AND DIRECTION OF AN ENTITY WITH SUCH A VAST POTENTIAL AS THE CALIFORNIA STATE WORLD TRADE PROGRAM.

NOW DIRECTING MY COMMENTS TO THE LITTLE HOOVER COMMISSION FINDINGS AND RECOMMENDATIONS, I COMMEND THIS COMMISSION FOR CONDUCTING A VERY THOROUGH STUDY AND ANALYSIS. I GENERALLY AGREE WITH THE RECOMMENDATIONS PUT FORTH BY THE REPORT. I SEE THE NEED FOR A GOVERNOR'S OFFICE OF WORLD TRADE, YET I AM NOT CERTAIN WHERE IT SHOULD BE PLACED. LIKEWISE THERE IS NO QUESTION OF THE NEED FOR A FULL TIME WORLD TRADE DIRECTOR IN THE GOVERNOR'S OFFICE. POSSIBLY THIS COULD BE ALIGNED WITH THE WORLD TRADE COMMISSION IN SOME WAY.

I AGREE WITH THE BASIC INTENT OF THE REPORT'S RECOMMENDATIONS, THAT IS TO UNIFY WHAT MAY AT THIS POINT APPEAR TO BE FRAGMENTED. IN THIS REGARD ANYTHING THAT CAN BE DONE TO COORDINATE THE PROTOCOL EFFORTS WOULD BE SEEN AS A STEP TOWARDS A MORE EFFECTIVE OFFICE. TWO WAY COMMUNICATION WITH THE TRADE IS IMPORTANT HERE. WITH REGARD TO THE ESTABLISHMENT OF A WORLD TRADE INFORMATION CLEARINGHOUSE, THERE IS CERTAINLY NO QUESTION OF THE NEED FOR CONSISTENT, ACCURATE DATA. A POSSIBLE IMMEDIATE OBJECTIVE WOULD BE THE SCREENING OF DATA TO ALLOW FOR A CLEAR PICTURE OF CALIFORNIA STATE ORIGINATED EXPORTS. AGAIN, POSSIBLY THIS DIVISION CAN BE DEVELOPED WITHIN THE WORLD TRADE COMMISSION.

AS THE REPORT'S FIFTH RECOMMENDATION DEFINES AN ANNUAL REPORT TO THE LEGISLATURE TO REVIEW WORLD TRADE PROMOTION ACTIVITIES, IT SEEMS THAT THIS IS MOST LOGICAL AND WOULD CERTAINLY BE TIED TO THE RECOMMENDATION TO ESTABLISH A JOINT LEGISLATIVE COMMITTEE ON WORLD TRADE, WHICH I SUPPORT. WHEN THE REPORT RECOMMENDS THE RELOCATION OF EXPORT PROMOTION ACTIVITIES AWAY FROM THE CALIFORNIA STATE WORLD TRADE COMMISSION, I AM CONCERNED THAT THE COMMISSION'S MOMENTUM IN THAT AREA WOULD BE LOST, AND THE AGENCY SELECTED FOR REESTABLISHMENT OF THE PROMOTION ACTIVITIES WOULD BE CHALLENGED TO OVERCOME INERTIA TO ACHIEVE THE SAME LEVEL OF SUCCESS CURRENTLY EXHIBITED BY THE WORLD TRADE COMMISSION.

FINALLY, I QUESTION THE RECOMMENDATION THAT THE CALIFORNIA STATE WORLD TRADE COMMISSION SOLICIT PRIVATE FUNDS FOR THE STATES WORLD TRADE PROGRAM. CALIFORNIA'S \$35 BILLION IN EXPORTS ALREADY

PRODUCES A HEFTY TAX BASE FOR THE STATE. THE TRADE SECTOR ALREADY IS SUPPORTING THE STATE'S PROGRAM BY MEANS OF TAX REVENUES. AND YET, I BELIEVE THE TRADE COMMUNITY IS NOT OPPOSED TO "SELF HELP," THEREFORE THROUGH COOPERATION WITH THE STATE WORLD TRADE COMMISSION, FURTHER ENHANCEMENT OF THE STATE'S TRADE PROGRAM COULD BE ACHIEVED.

IN SHORT, I BELIEVE IT IS OBVIOUS THAT THE FLEXIBILITY BUILT INTO THE CALIFORNIA STATE WORLD TRADE COMMISSION STRUCTURE IS NECESSARY. IT ALLOWS THE COMMISSION TO INTERFACE AND PENETRATE THE PRIVATE SECTOR TRADE COMMUNITY AND SUCCEED IN ITS MISSION.

AGAIN, THANK YOU FOR ALLOWING ME THIS OPPORTUNITY TO PRESENT MY COMMENTS. IF I MAY SUGGEST ONE THING AS I STEP DOWN, PLEASE CONTINUE TO SEEK FEEDBACK FROM THE TRADE COMMUNITY. BECAUSE THE PROFILE OF INTERNATIONAL TRADE IS CONSTANTLY CHANGING AND CALIFORNIA IS BLESSED WITH A GROWING EXPERTISE IN INTERNATIONAL TRADING.

**CALIFORNIA LEGISLATURE**

**ASSEMBLY COMMITTEE**

**ON**

**INTERNATIONAL TRADE AND GOVERNMENTAL RELATIONS**

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**HEARINGS November 4, 1987**  
**Los Angeles, California**

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**Remarks of Commissioner Charles H. Nevil, \***  
**California State World Trade Commission**

**\*The views presented are those of Mr. Charles H. Nevil only and do not necessarily reflect the views of any other member of the Commission.**





CHAIRWOMAN KILLEA, MEMBERS OF THE COMMITTEE. I AM HONORED TO BE AMONG THE THOSE WHO HAVE THE OPPORTUNITY TO MEET WITH YOU TODAY AND PRESENT POINTS OF VIEW. LOOKING AT THE LIST OF MY DISTINGUISHED COLLEAGUES, I AM AWARE THAT IT IS DIFFICULT TO BE AS ELOQUENT OR AS ERUDITE AS THEY, BUT I PROMISE YOU MY COMMENTS WILL BE STRAIGHT FROM THE HEART AND WILL BE FILLED WITH THE EXCITEMENT I FEEL THIS MOST IMPORTANT SUBJECT DESERVES.

THE MERE FACT THAT WE ARE GATHERED HERE TODAY CLEARLY SENDS A SIGNAL TO CALIFORNIA'S INTERNATIONAL TRADE COMMUNITY (AND HOPEFULLY TO THE FEDERAL GOVERNMENT) THAT THE STATE OF CALIFORNIA CONSIDERS INTERNATIONAL TRADE AND ITS IMPACT ON OUR STATE'S FUTURE, A PRIMARY CONCERN. THE WORLD TRADE COMMISSION IS A CREATION OF THE LEGISLATURE WHICH HAS BEEN SUPPORTED UNSTINTINGLY BY THE GOVERNOR, THE LIEUTENANT GOVERNOR, AND THE SECRETARY OF STATE. WE ARE SO PLEASED TO HAVE THE LITTLE HOOVER COMMISSION REPORT BECAUSE IT REAFFIRMS THAT THE INTEREST IN INTERNATIONALISM WHICH CREATED THE WORLD TRADE COMMISSION IS AN EVER GROWING AND CONTINUING ISSUE. ALTHOUGH NO ONE IN THE TRADE COMMUNITY WILL CONSIDER THE REPORT PERFECT IN ALL ASPECTS, WE DO APPRECIATE THE FACT THAT IS A VERY SUPPORTIVE DOCUMENT OVERALL.

LET ME TAKE OFF MY COMMISSIONER'S HAT FOR A FEW MOMENTS AND ADDRESS YOU AS A MEMBER OF THE PRIVATE SECTOR. I AM A PROFESSIONAL EXPORTER. HOPEFULLY, IN ADDITION TO MY OWN THOUGHTS, THESE COMMENTS REFLECT THE POSITIONS OF MEMBERS OF MY COMMUNITY AS WELL. I HAVE THE GOOD FORTUNE TO BE ACTIVE IN MANY TRADE ORGANIZATIONS. THIS COMMITTEE SHOULD BE ASSURED THE

HEARINGS TODAY ARE HEARTILY WELCOMED BY OUR WORLD TRADE CONSTITUENCY. WITHOUT EXCEPTION, EACH MAJOR TRADE ORGANIZATION IN THE AREA HAS NOTED YOUR PRESENCE IN OUR COMMUNITY WITH PRIDE AND HAS STUDIED THE LITTLE HOOVER COMMISSION REPORT IN AN EFFORT TO MAKE CONSTRUCTIVE COMMENTS. AS AN EXAMPLE, I OFFER SOME STATEMENTS FROM THE INTERNATIONAL COMMERCE DEPARTMENT OF THE LOS ANGELES AREA CHAMBER OF COMMERCE, THE FOREIGN TRADE ASSOCIATION, AND THE EXPORT MANAGERS ASSOCIATION WHICH I WILL ATTACH TO COPIES OF MY PRESENTATION FOR YOUR STUDY. BUT LET ME BRIEFLY QUOTE SIGNIFICANT ITEMS:

FROM THE EXPORT MANAGER'S ASSOCIATION:

"EMAC BELIEVES ALL STATE SPONSORED ORGANIZATIONS SHOULD AND MUST BE RESPONSIVE TO CHANGE. HOWEVER, WE AS A TRADE ORGANIZATION ARE CONCERNED THAT THE SPECIFIC CHANGES AS STATED (IN THE LITTLE HOOVER COMMITTEE REPORT) WHICH WILL COMBINE THE ACTIVITIES OF THE CSWTC WITH GOVERNMENT AGENCIES WILL TEND TO DIMINISH THE EFFECTIVENESS OF OUR MEMBERS IN THEIR WORK TO EXPAND EXPORTS AND THEREBY REDUCE THEIR INTEREST AND PARTICIPATION IN THE CSWTC'S ACTIVITIES."

FROM THE CHAMBER OF COMMERCE, THE FOLLOWING:

"UPON READING THE COMMISSION'S RECOMMENDATIONS, TWO THOUGHTS COME IMMEDIATELY TO MIND: "WHY REINVENT THE WHEEL" AND "IF IT ISN'T BROKEN, DON'T FIX IT".

THE WORLD TRADE COMMISSION HAS INITIATED AND IMPLEMENTED SEVERAL PRODUCTIVE EXPORT PROMOTION PROGRAMS. THE WORLD TRADE COMMISSION HAS GAINED THE RESPECT AND COOPERATION OF THE SOUTHERN CALIFORNIA INTERNATIONAL TRADE COMMUNITY. TO IMPLEMENT (ALL OF) THE LITTLE HOOVER COMMISSION'S RECOMMENDATIONS WOULD BE TANTAMOUNT TO INITIATING THE WORLD TRADE COMMISSION'S DEMISE."

FROM THE FOREIGN TRADE ASSOCIATION:

"WE SUPPORT SEVERAL OF THE COMMISSION'S FINDINGS AND HAVE RESERVATIONS ON SOME... THE FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA MUST REMARK ON THE ALMOST TOTAL ABSENCE OF COMMENT FROM THE STATE'S PRIVATE SECTOR IN THE LITTLE HOOVER COMMISSION'S REPORT. THIS OVERSIGHT IS EVEN MORE APPARENT, WHEN ONE REALIZES THAT COMMENT FROM THE SOUTHERN HALF OF THE STATE IS FOR ALL PRACTICAL PURPOSE TOTALLY ABSENT FROM THE REPORT, THIS IN SPITE OF THE FACT THAT NEARLY TWO THIRDS OF THE STATE'S INTERNATIONAL TRADE AND COMMERCE IS DONE IN SOUTHERN CALIFORNIA."

I TRUST, MEMBERS OF THE COMMITTEE, THAT YOU WILL TAKE THE TIME TO READ THE FULL TEXTS I AM ATTACHING TO COPIES OF MY TESTIMONY. IT IS NOT ALL MILK AND HONEY BUT, IT IS CONSTRUCTIVE AND HONEST.

I BEGAN MY CAREER AS AN EXPORTER IN CALIFORNIA IN 1960. FOR 28 YEARS I HAVE TRIED, VERY OFTEN SUCCESSFULLY, TO HELP OUR TRADE COMMUNITY MOVE FORWARD BY WORKING CLOSELY WITH FEDERAL, STATE,

AND LOCAL AGENCIES. IN ALL HONESTY, MEMBERS OF MY PROFESSION VIEW GOVERNMENT - - ANY GOVERNMENT - - AS THEIR NATURAL ENEMY. ASK WHY SOMETHING DOESN'T WORK, THE INEVITABLE ANSWER WILL BE BECAUSE "THE GOVERNMENT" DID THIS OR DID THAT. WE IN CALIFORNIA CREATED A DYNAMIC BRIDGE BETWEEN THE PRIVATE SECTOR AND STATE GOVERNMENT WHEN THE WORLD TRADE COMMISSION WAS FASHIONED AND BROUGHT TO LIFE. ALTHOUGH THERE WAS SOME SKEPTICISM IN THE BEGINNING THAT THE COMMISSION MIGHT BE ONE MORE "BUREAUCRATIC BOONDOGGLE," THE COMMUNITY TODAY RESPECTS AND WORKS WITH THE COMMISSION BECAUSE THE COMMISSION RESPECTS AND WORKS WITH THE TRADE COMMUNITY. THE COMMISSION, AFTER ALL, IS IN LARGE MEASURE GUIDED BY AND MANAGED BY MEMBERS OF THE PRIVATE SECTOR WHO, IN PARTNERSHIP WITH GOVERNMENT, ARE HELPING TO ADD NEW EXTRAORDINARILY DRAMATIC DIMENSIONS TO CALIFORNIA'S INTERNATIONALISM.

WE ARE VIEWED AS A NATION OF TRADE UNTO OURSELVES BY THE OUTSIDE WORLD. OUR TRADE STATISTICS VALIDATE THIS CONCEPT. ONE OF THE REASONS WE SUCCEED IS BECAUSE OUR GAME PLAN HAS US GROWING TOGETHER, THE PRIVATE SECTOR AND STATE GOVERNMENT ARE FORGING NEW LINKS TO TOMORROW'S BUSINESS. BECAUSE THE LEGISLATURE FORESAW THE NEED FOR PRIVATE SECTOR INVOLVEMENT, THE POTENTIAL CREDITABILITY GAP HAS BEEN ELIMINATED. MY COLLEAGUES AND I KNOW WE CAN TURN TO THE COMMISSION AND RECEIVE BUSINESS-LIKE ANSWERS TO OUR BUSINESS QUESTIONS. WE ARE NOT DEALING WITH BUREAUCRACY BUT WITH EFFECTIVE GOVERNMENT. WE ARE NOT DEALING WITH STAFF THAT IS IN PLACE ONLY AS GOVERNMENT EMPLOYEES, BUT RATHER WE ARE DEALING WITH STAFF WHICH OFTEN EITHER COMES FROM PRIVATE SECTOR OR IS ASSISTED BY MEMBERS OF THE PRIVATE SECTOR. THE COMMISSION,

AS IT IS PRESENTLY CONSTITUTED, REPRESENTS AN OPPORTUNITY FOR GROWTH IN INTERNATIONALISM FOR OUR STATE WHICH IS ABSOLUTELY UNPARALLELED AND WHICH HAS NEVER IN THE PAST EXISTED. I WOULD HAVE TO BE CONCERNED ABOUT ANY CHANGE IN THE COMMISSION WHICH WOULD LESSEN IT'S EFFECTIVENESS THEREFORE, I AM VERY CONCERNED ABOUT THE RECOMMENDATIONS THAT CERTAIN PART'S OF THE COMMISSION BE "CHUNKED OUT" AND PLACED UNDER THE DIRECTION OF VARIOUS GOVERNMENT AGENCIES. WITH NO DISRESPECT INTENDED FOR THE AGENCIES INVOLVED, I HAVE TO STATE THAT THE STAFF WHICH THE COMMISSION HAS ATTRACTED WOULD NOT HAVE BEEN AVAILABLE TO THE COMMISSION IF THESE JOB POSITIONS WERE UNDER CIVIL SERVICE. NOT ONLY WOULD THE TIE THAT BINDS OUR TRADE COMMUNITY TO THE COMMISSION BE BROKEN, BUT I TRULY BELIEVE THE LEVEL OF TALENT AVAILABLE TO SUCH ACTIVITIES AS EXPORT TRADE PROMOTION AND THE EXPORT FINANCE BOARD WOULD BE SEVERLY DIMINISHED. I BELIEVE THIS IS AN ATTITUDE SHARED BY MOST OF MY PROFESSIONAL COLLEAGUES.

WE CAN EASILY SEE THAT A "GOVERNOR'S OFFICE OF WORLD TRADE" COULD BE PUT IN PLACE IF THE PRESENTLY EXISTING WORLD TRADE COMMISSION AND IT'S EXECUTIVE DIRECTOR WERE MADE THE GOVERNOR'S CHIEF ADVISER ON ALL WORLD TRADE MATTERS. WE SUGGEST THAT UTILIZING RESOURCES ALREADY AVAILABLE MIGHT CLARIFY THE ROLE OF THE COMMISSION AND CREATE A MORE SPECIFIC IMAGE OF A "GOVERNOR'S OFFICE OF WORLD TRADE."

TO REDUCE THE ROLE OF THE COMMISSIONERS TO THAT OF ADVISERS AND MORE SPECIFICALLY TO SUGGEST THAT MEMBERS OF THE PRIVATE SECTOR SHOULD BE APPOINTED COMMISSIONERS FOR THE PURPOSE OF FUND RAISING TO SUPPORT A PUBLIC SECTOR OPERATION, SEEMS VERY INAPPROPRIATE TO ME AND I CAN TELL AS A MEMBER OF THE TRADE COMMUNITY, SUCH AN ACTION WOULD QUICKLY RAISE EYEBROWS AND REINSTATE THE STATUS QUO WHICH EXISTED BEFORE THE COMMISSION'S CREATION. SUCH AN ACTION WOULD REINFORCE THE THEORY THAT STATE GOVERNMENT HAS NOT SERIOUS INTEREST IN WORKING WITH THE PRIVATE SECTOR TO DEVELOP TRADE AND REVIEW TRADE ISSUES. LET ME BE SPECIFIC AND SAY SUCH AN ACTION, WOULD BE, IN MY OPINION, DISASTROUS.

AS I SAID AT THE OUTSET, WE IN THE TRADE COMMUNITY VIEW MUCH OF WHAT THE LITTLE HOOVER COMMISSION REPORT SUGGESTS AS EXTREMELY POSITIVE. WE KNOW THERE IS ALREADY IN PLACE A NEW OFFICE OF INTERNATIONAL VISITORS WITHIN THE WORLD TRADE COMMISSION AND IN EFFECT, THIS IS AN OFFICE OF BUSINESS PROTOCOL. WE SUPPORT ANY EFFORT TO MAKE AN EVEN MORE EFFECTIVE INFORMATION CLEARING HOUSE SYSTEM AVAILABLE TO THE EXPORT CONSTITUENCY. WE CERTAINLY SUPPORT A CLOSER WORKING RELATIONSHIP BETWEEN THE LEGISLATURE AND THE WORLD TRADE COMMISSION. WE ARE PROUD TO BE A PART OF THE SUPPORT MECHANISM FOR THAT VERY CONSTRUCTIVE BRIDGE WHICH EXISTS BETWEEN THE PRIVATE SECTOR AND OUR STATE GOVERNMENT AND WANT TO SEE THAT BRIDGE STRENGTHENED THROUGHOUT THE YEARS TO COME.

BEFORE I PUT ON MY COMMISSIONER'S HAT AGAIN, LET ME STATE WITHOUT EQUIVOCATION THAT WE IN THE INTERNATIONAL TRADE COMMUNITY OF SOUTHERN CALIFORNIA ARE EXCITED BY THE GENUINE CONCERN AND INTEREST OUR LEGISLATURE SHOWS THROUGH HEARINGS SUCH AS THIS. MANY OF US BELIEVE THAT AS CALIFORNIA GOES, SO WILL GO THE FUTURE INTERNATIONAL ACTIVITIES OF THE UNITED STATES. WE RECOGNIZE THAT WE ARE THE KEY STATE IN THE TRADE PICTURE OF THE TWENTY-FIRST CENTURY FOR OUR COUNTRY. WE HAVE BOTH AN OPPORTUNITY AND A RESPONSIBILITY TO LEAD THE NATION AND WE PROFESSIONALS TAKE A GOOD DEAL OF PRIDE IN HAVING A STATE GOVERNMENT WHICH IS SUPPORTIVE AT EVERY LEVEL. THIS CANNOT ALWAYS BE SAID OF OTHER STATE GOVERNMENTS. FROM A PROFESSIONAL'S POINT OF VIEW I WOULD STATE THAT IT IS GENERALLY OUR OPINION THAT IT CANNOT BE SAID AT ALL OF THE FEDERAL GOVERNMENT.

IN CLOSING LET ME PUT MY COMMISSIONER'S CAP ON ONCE AGAIN AND TELL ALL OF YOU WHAT A PRIVILEGE IT IS FOR ME TO SERVE MY STATE AND THE TRADE CONSTITUENCY AS A COMMISSIONER. I HAVE BEEN INVOLVED FOR OVER TWENTY-FIVE YEARS IN PUBLIC SERVICE AND HAVE NEVER EXPERIENCED A MORE SATISFYING ACTIVITY. I WORK WITH A COMMISSION STAFF IN SACRAMENTO WHOSE ZEALOUS ENTHUSIASM IS OVERWHELMING. OUR COMMISSION EMPLOYEES DON'T KNOW WHAT AN EIGHT HOUR DAY IS BECAUSE WHEN DUTY CALLS, THERE IS NO CLOCK ON THE WALL. OUR COMMISSIONERS ARE DEDICATED BEYOND WHAT COULD BE EXPECTED OF THEM. I BELIEVE ALL OF US ADDRESS THE TASKS IN FRONT OF US WITH A SPECIAL PASSION AND A PRIDE WHICH SHOWS IN THE QUALITY OF OUR WORK. I HOPE THAT AS A RESULT OF THE DISTILLATION OF THE LITTLE HOOVER COMMISSION REPORT, THE COMMISSION WILL EMERGE AS AN EVEN



TO REDUCE THE ROLE OF THE COMMISSIONERS TO THAT OF ADVISERS AND MORE SPECIFICALLY TO SUGGEST THAT MEMBERS OF THE PRIVATE SECTOR SHOULD BE APPOINTED COMMISSIONERS FOR THE PURPOSE OF FUND RAISING TO SUPPORT A PUBLIC SECTOR OPERATION, SEEMS VERY INAPPROPRIATE TO ME AND I CAN TELL AS A MEMBER OF THE TRADE COMMUNITY, SUCH AN ACTION WOULD QUICKLY RAISE EYEBROWS AND REINSTATE THE STATUS QUO WHICH EXISTED BEFORE THE COMMISSION'S CREATION. SUCH AN ACTION WOULD REINFORCE THE THEORY THAT STATE GOVERNMENT HAS NO SERIOUS INTEREST IN WORKING WITH THE PRIVATE SECTOR TO DEVELOP TRADE AND REVIEW TRADE ISSUES. LET ME BE SPECIFIC AND SAY SUCH AN ACTION, WOULD BE, IN MY OPINION, DISASTROUS.

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STRONGER BODY, THAT THE COMMISSIONERS WILL HAVE AN OPPORTUNITY TO GIVE EVEN GREATER PURPOSE TO THEIR WORK. MY PARTICULAR JOY IN THE ROLE I PLAY IS THAT I HELP TO CREATE A BETTER FUTURE FOR CALIFORNIA BY GIVING MY KNOWLEDGE TO OTHERS KNOWING THAT OUR STATE GOVERNMENT, AT EVERY LEVEL, IS ENTHUSIASTICALLY SUPPORTING THE EFFORTS I AND MY FELLOW COMMISSIONER'S MAKE.

I THANK YOU ONCE AGAIN FOR GIVING ME THIS OPPORTUNITY TO BE WITH YOU. SHOULD YOU EVER NEED MY ASSISTANCE ON ANY TRADE RELATED ISSUES, I AM ALWAYS AVAILABLE TO YOU. THANK YOU.



October 30, 1987

OCT 31 1987

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Los Angeles, CA 90066-5107

**SUBJECT: EMAC Position Regarding**  
**Recommendation of**  
**Little Hoover Commission**

Export Managers Association of California is concerned with the specific recommendations regarding changes relating to the California State World Commission, EMAC wishes to state certain reservations.

The California State World Trade Commission was established as a state function organized to include and maximize the participation of the California export community. As part of the California trade community, EMAC members are involved in the Commission and its now disbanded Advisory Board. Through this participation EMAC has had the opportunity to observe and evaluate the accomplishments of the CSWTC since its inception.

EMAC believes all state sponsored organizations should and must be responsive to change. However, we as a trade organization are concerned that the specific changes as stated which will combine the activities of the CSWTC with government agencies will tend to diminish the effectiveness of our members in their work to expand exports and thereby reduce their interest and participation in the CSWTC's activities.

We respectfully request that all efforts will be made to support the independence of the CSWTC in order to assure the participation of knowledgeable and qualified exporters in the Commission's activities.

Respectively submitted:

Frederick J. Gonzalez,  
EMAC President  
Bell & Howell Co.

FJG:np



401 South Bixel Street  
P.O. Box 3696 Terminal Annex  
Los Angeles, California 90031-1696  
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October 3, 1987



My name is Richard Hoffman. I am Program Director for the International Commerce Department of the Los Angeles Area Chamber of Commerce.

I wish to commend the Commission on California State Government Organization and Economy on their "Review of the Organization and Administration of California's Overseas Trade and Investment Offices". Obviously a great deal of time, thought and effort has gone into its preparation. However, I do feel that those recommendations impacting on the California State World Trade Commission require comment.

Upon reading the Commission's recommendations, two thoughts come immediately to mind: "Why reinvent the wheel" and "If it isn't broken, don't fix it".

At least three of the Commission's recommendations are already being carried out - and very effectively - by the California World Trade Commission under the leadership of Chairman Robert Monogan and Executive Director Greg Mignano. The State's world trade activities are already in the Governor's office; there is a full-time Director of world trade activities; and, an annual report on trade promotional efforts is being issued.

Additionally, moving the export promotion activities from the California World Trade Commission to the California Department of Commerce would be a serious mistake, and mandating the Commission to be responsible for raising private funding for the State's trade program would be unconscionable.

The World Trade Commission has initiated and implemented several productive export promotion programs. The World Trade Commission has gained the respect and cooperation of the Southern California International Trade community. To implement the Little Hoover Commission's recommendations would be tantamount to initiating the World Trade Commission's demise.



NOV 3 1987

To: Charles Nevil  
From: Jay Winter  
Subject: Little Hoover Commission Report on California's world trade programs.

The Foreign Trade Association of Southern California offers the following comments on "A Review of the Organization and Administration of California's Overseas Trade and Investment Offices" by the Little Hoover Commission. First, we note the Commission's recognition of world trade's enhanced status in Sacramento. We applaud this positive step, and look for continued expansion of the state's involvement in international trade and commerce.

We support several of the commission's findings and have reservations on some. We agree with the Commission's recommendation to establish a "Governor's Office of World Trade" and the appointment of a full time director of this office. Additionally, we concur with the need to establish an information clearing house, as well as the creation of a joint legislative committee on world trade.

On the down side, we are apprehensive about the proposal to relocate the export promotion and export finance activities to the Department of Commerce. Under Commerce we believe these vital trade functions might become lost and lose their effectiveness. We believe they will function more efficiently under the control of the Governor's World Trade Office.

That part of the Commission's recommendation number seven recommending that the State World Trade Commission should become a fund raising agency be dropped. The function of the California State World Trade Commission should be that of a policy advisor, and to bring to the executive and legislative branches the issues that California's private sector encounters in the day-to-day business of international trade. The idea to make the World Trade Commission a fund raising organization would create no end of problems for government and business.

Aside from the above comments the Foreign Trade Association of Southern California must remark on the almost total absence of comment from the state's private sector in the Little Hoover Commission's report. This oversight is even more apparent, when one realizes that comment from the southern half of the state is for all practical purpose totally absent from the report, this in spite of the fact that nearly two thirds of the state's international trade and commerce is done in Southern California. We think an explanation on this point should be forthcoming from the Little Hoover Commission.





CALIFORNIA LEGISLATURE

ASSEMBLY COMMITTEE

ON

INTERNATIONAL TRADE AND GOVERNMENTAL RELATIONS

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HEARINGS ON THE REVIEW OF THE ORGANIZATION AND  
ADMINISTRATION OF CALIFORNIA'S OVERSEAS TRADE  
AND INVESTMENT OFFICES CONDUCTED BY THE  
COMMISSION ON CALIFORNIA STATE  
GOVERNMENT ORGANIZATION AND ECONOMY

November 4, 1987  
Los Angeles, California

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Remarks of Commissioner John R. Liebman, \*  
California State World Trade Commission

\*The views presented are those of Mr. Liebman only and do  
not necessarily reflect the views of any other member of the  
Commission.



Thank you, Chairwoman Killea, for inviting me to present my views regarding the Little Hoover Commission's report on California's overseas trade and investment offices.

This report, of course, went far beyond the range of inquiry suggested by its title. Indeed, as the letter transmitting the report to the Governor and the Legislature states, the inquiry extended to ". . . the state-level administration and coordination of California's world trade program . . ." as well as to the new overseas offices.

Generally, I found the report to be constructive and, in a theoretical light, potentially quite useful. In reading the report, however, I wondered at times whether the World Trade Commission being discussed was the same commission on which I serve. I concluded finally that the key element overlooked by the Little Hoover Commission and omitted from the report was an appreciation of the political dynamics that led to the Commission's creation and still figure in the manner in which the Commission operates. I'd like to spend my time with this Committee today discussing these political factors and how they could affect the findings and recommendations presented in the report, concluding with some comments regarding the recommendations themselves.

By the end of the Brown Administration, the international trade community in California had virtually abandoned any hope that state government would ever play a useful role in helping California come to grips with the increasing internationalization of its economy. Those of us active in federal advisory groups such as the district export councils had heard for years from the Commerce Department that the states increasingly would have to fill the void created by a decline in congressional funding for international trade development. Yet neither the administration in Sacramento nor the state legislature had evinced much interest at all in dealing with the international challenge. The Office of International Trade, operating at the bottom of a bureaucratic totem pole, had scant resources and even less guidance and inspiration from the administration as to its mission. Simply stated, state government had no credibility within the international business community.

When discussions between the legislature and international trade community began in late '82, therefore, there were many awkward moments. The business community was skeptical that any joint effort between the trade and political worlds would be successful. From the private sector point of view, politicians were saying the right

things for the wrong reasons; their agendas differed from ours. Many of us remembered earlier efforts by the State of California that had hardly started before being closed down. We in the private sector did not want to be parties to any on-again off-again efforts, and were certain that if the proposed World Trade Commission were controlled exclusively by politicians, it would fade into oblivion just as soon as the next trendy political opportunity came along.

The determination of the trade community not to be disappointed again was manifested in the power-sharing arrangement reflected in the initial legislation. It was a clumsy arrangement, and everyone knew it, but it seemed to be the only hope of achieving the momentum and substance needed to assure program continuity. You may recall how close we came to seeing the Commission founder in early '83 because of an effort by the legislature to reduce the private sector's role in the process.

Much of the Commission's success in its four and one-half years of existence can be attributed, in my judgment, to our willingness to listen and to learn from one another. I felt like Red Skelton's Clem Cadiddlehopper, porkpie hat and all, that first year; nothing I had experienced working in Washington could come close to Sacramento. Similarly, I believe that the Governor, the

Lieutenant Governor, the Secretary of State and the legislative members all learned from us. The Commission itself prospered because everyone wanted it to succeed and -- most significantly -- it was a political no-man's land. Last year's reorganization has worked and is working well partly because we are all more comfortable with one another, but also because the Commission still has significant operational, as well as advisory, roles. Before throwing out the bathwater, therefore, let's make sure that the baby won't go with it.

Turning to the report itself, I see that many of its recommendations are in the process of implementation or, in fact, have already been activated. Some of the recommendations, however, do not accurately reflect what has been happening with the Commission, and if implemented could be counter-productive.

The report notes that the world trade program is organizationally dispersed, lacks accountability, and is coordinated through a network of informal agency relationships rather than a formal structure. True enough; but, aside from the complaint about lack of accountability, I'm not at all certain that "formal" is necessarily "better." A few years ago, former Senator S.I. Hayakawa introduced a proposal that all of the agencies currently

involved in the export control program converge on a new central point: the Office of Strategic Trade. This office was to obliterate all of the internecine rivalry between DoD, Commerce, and State that we have heard a lot about in recent months. We determined that far from eliminating the rivalry, this new office either would be totally paralyzed or, having been so well insulated from external forces, would run roughshod over everyone's interests. The analogy to the present situation is clear, and whether we disdain informal structures or not, we cannot forget that one reason for the Commission's success is that it isn't anyone's private preserve, and is not constrained by the territoriality imposed by neat organizational charts.

The report notes that the existing structure does nothing to ensure a long-term commitment to trade development. In that regard, the report recommends that there be an Office of World Trade within the Governor's office to lend definition and continuity to the program. With all due respect, the only assurance of continuity the program has or should have is its performance. If the Commission is relegated to an advisory role alone, if all operational functions are transferred to a conventional niche in the state bureaucracy, and if the private sector no longer has a real role in the program, results will be



disappointing and the entire program will become fair game for ambush. Indeed, it should be.

We need to focus, I think, on helping to improve accountability within the present structure. We must ensure that the programs now operated by the Commission perform as they should. The present balancing act that must be done by the Commission is not ideal in many respects, but it seems to work reasonably well. There may come a time when events and circumstances move us to change the existing structure, but I don't believe that we have yet come to that point.

In closing, the Commission has become a part of my life of which I am proud. It has given the State of California unparalleled opportunities to efficiently marshall its political and economical resources in a meaningful way. Many states around this country are looking to California as a model of what government and business can achieve together when they put their minds to it. I urge that we not jeopardize the enviable record of achievement racked up by the Commission for the sake of tidy policy planning, and that any proposal for significant change be viewed with great caution.

**Assembly Committee on International  
Trade and Intergovernmental Relations**

**Perspectives on the Internationalization  
Of California State Government**

**Part I: A Review of the Little Hoover Commission  
Report on California's Trade and Investment Programs**

**Testimony by Richard C. King  
President, Richard King International**

**Wednesday, November 4, 1987**



GOOD AFTERNOON. I'M RICHARD KING, PRESIDENT OF RICHARD KING INTERNATIONAL, AN INTERNATIONAL MANAGEMENT CONSULTING FIRM LOCATED IN LOS ANGELES. I'VE BEEN IN THE INTERNATIONAL BUSINESS FIELD FOR OVER 25 YEARS AS A CORPORATE EXECUTIVE, GOVERNMENT OFFICIAL, AND PRIVATE CONSULTANT. FROM 1978-80, I SERVED AS THE STATE'S FIRST DIRECTOR OF INTERNATIONAL TRADE UNDER THE BROWN ADMINISTRATION.

TODAY AS I'M HEARING COMMENTS AND ANALYSIS OF THE GOVERNMENT'S ROLE IN INTERNATIONAL TRADE FOR THE STATE, I'M REMINDED OF MANY OF THE ISSUES WE FACED SOME YEARS BACK WHEN WE WERE DEVELOPING EARLIER PROGRAMS TO PROMOTE TRADE AND INVESTMENT. FORTUNATELY, IN TODAY'S POLITICAL ENVIRONMENT, WE HAVE A LOT MORE POLITICIANS, GOVERNMENT OFFICIALS AND BUSINESSMEN INTERESTED IN TRADE AND INVESTMENT, AND I THINK THAT'S A GOOD DEVELOPMENT. I ALSO THINK IT'S A GOOD DEVELOPMENT FOR THE STATE TO BE MORE ACTIVE IN THE TRADE ARENA AND PROVIDE A CATALYST FOR THE COMPETITIVE EFFORTS OF THE PRIVATE SECTOR.

TODAY, I WOULD LIKE TO MAKE SOME GENERAL COMMENTS ON THE COMMISSION'S REPORT:

1) AS FAR AS THE ORGANIZATION OF THE TRADE FUNCTION, I AM IN AGREEMENT WITH THE LITTLE HOOVER COMMISSION REPORT ON THE NEED TO CONSOLIDATE FUNCTIONS WITHIN THE EXECUTIVE BRANCH. I THINK WE'VE HAD

TOO MUCH SEPARATION OF POLICY AND ADMINSTRATIVE RESPONSIBILITY. I THINK FOREIGN TRADING PARTNERS FEEL MORE COMFORTABLE WHEN THEY ARE DEALING WITH ONE AGENCY WHICH HAS RESPONSIBILITY FOR TRADE MATTERS. THEREFORE, I AM A PROPONENT OF BRINGING THE TRADE POLICY FUNCTIONS WITHIN THE GOVERNOR'S OFFICE. I ALSO BELIEVE THAT CALIFORNIA FIRMS WANT TO FEEL THEY HAVE THE CLOUT OF THE GOVERNOR'S OFFICE SUPPORTING THEM.

2) I SUPPORT THE COMMISSION'S RECOMMENDATION TO MOVE EXPORT PROMOTION AND EXPORT FINANCE ACTIVITIES FROM THE WORLD TRADE COMMISSION TO THE DEPARTMENT OF COMMERCE. THIS MOVE MAKES SENSE SINCE IT IS THE ROLE OF THE DEPARTMENT OF COMMERCE TO STIMULATE ECONOMIC ACTIVITY FOR THE STATE.

3) ON THE NEED FOR OVERSEAS OFFICES. I THINK HERE, WHEN WE ARE TALKING ABOUT SPENDING A GOOD DEAL OF MONEY TO HAVE REPRESENTATION OVERSEAS, WE NEED TO BE CLEAR ON THE GOALS AND MISSIONS OF THOSE EFFORTS. IF AN OVERSEAS OFFICE FOR TRADE AND INVESTMENT IS DETERMINED TO BE A POLITICAL NECESSITY, THEN LET'S CALL IT A POLITICAL DECISION AND NOT PRESSURE STATE OFFICIALS AND POLITICIANS TO PROVIDE ECONOMIC JUSTIFICATIONS FOR THE OFFICE. IF, ON THE OTHER HAND, AN OVERSEAS OFFICE IS DETERMINED TO HAVE AN ECONOMIC FUNCTION, AND TO SUPPORT ITSELF AS AN ECONOMIC ENTITY, THEN WE NEED TO SET FIRM GUIDELINES FOR PERFORMANCE. WE MUST HAVE A BUSINESS PLAN AND CRITERIA TO MEASURE THE SUCCESS OF SUCH A PROGRAM. MORE IMPORTANTLY, WE MUST LEARN TO DETERMINE WHAT TYPES OF PROGRAMS ARE COST-EFFECTIVE AND WHAT TYPES ARE NOT.

4) ON THE NEED FOR MORE ECONOMIC DATA. I'M NOT SO SURE ABOUT THE NEED FOR MORE DATA COLLECTION. I THINK EXPORTERS AND INVESTORS WHO ARE SERIOUS ABOUT THEIR GOALS GO AFTER THE DATA THEMSELVES. SOMETIMES, AT THE STATE LEVEL, WE TEND TO DUPLICATE INFORMATION ALREADY AVAILABLE THROUGH THE FEDERAL GOVERNMENT AND PRIVATE SECTOR. I THINK THE IDEA ABOUT CONSOLIDATING INFORMATION NETWORKS IS A GOOD ONE, BUT I THINK THAT DATA RETRIEVAL ON TRADE AND INVESTMENT, TO BE TRULY MEANINGFUL TO BUSINESS PEOPLE IN THEIR DECISION-MAKING PROCESS, IS A VERY COSTLY ENDEAVOR FOR STATE GOVERNMENT. I THINK THERE ARE CERTAIN TYPES OF INFORMATION WHICH CAN BE MADE MORE AVAILABLE THROUGH COMPUTER NETWORKING, BUT MAYBE IT SHOULD BE UP TO THE PRIVATE SECTOR TO PAY FOR THOSE SERVICES. THERE SHOULD BE A STUDY ON THE FEASIBILITY OF NEW WAYS TO PROVIDE TRADE AND INVESTMENT DATA TO EXPORTERS AND INTERNATIONAL BUSINESSMEN. I'M NOT SURE THE STATE SHOULD BE IN THIS LINE OF BUSINESS.

5) ON THE IDEA OF GIVING CALIFORNIA HIGHER PROMINENCE IN NATIONAL AND INTERNATIONAL TRADE POLICY THROUGH THE GOVERNOR'S OFFICE. I THINK THE ADVOCACY FUNCTION IS NECESSARY, AND WE HAVE SEEN SOME EXCELLENT NEW GROUND BROKEN BY THE WORLD TRADE COMMISSION IN THIS AREA. BUT I AM ALSO CAUTIOUS ABOUT THE ISSUES WHICH WE TAKE ON IN ADVOCACY. WE MUST BE CAREFUL TO REPRESENT THE STATE'S FULL ECONOMIC INTERESTS WHEN WE STATE PUBLIC POLICY POSITIONS. THERE SHOULD BE A VERY SEASONED GROUP OF POLICY PEOPLE FORMULATING STATE "TRADE" POLICY IDEAS --

IF WE'RE GOING TO TAKE THEM TO THE PRESS. STATE OFFICIALS MUST ALSO BE SENSITIVE TO THE STRATEGIES OF THE PRIVATE SECTOR AND GAUGE THEIR EFFORTS ACCORDINGLY. FURTHERMORE, STATE OFFICIALS MUST RECOGNIZE THAT TRADE POLICY IS BASICALLY A FUNCTION OF THE FEDERAL GOVERNMENT AND THE STATE'S EFFORTS MUST BE KEPT IN PERSPECTIVE.

6) ON THE IDEA OF A JOINT LEGISLATIVE COMMITTEE ON WORLD TRADE. I THINK IT'S A GOOD IDEA, AND IT PROVIDES A NECESSARY BALANCE TO THE STATE FUNCTION.

7) MY FINAL COMMENT CONCERNS INTERNATIONAL EDUCATION. I THINK WE ARE NOT EMPHASIZING THE STATE'S ROLE IN EDUCATION AS MUCH AS WE SHOULD. EDUCATION IS A MUCH OVERLOOKED ELEMENT IN THE STATE'S COMPETITIVENESS. WE HAVE A STRONG TECHNOLOGY AND BUSINESS BASE BECAUSE OF A HIGH EDUCATION LEVEL. WE NEED TO STRENGTHEN OUR EDUCATIONAL QUALITY -- TO MAINTAIN THAT LEADERSHIP POSITION -- AT ALL LEVELS OF SCHOOL. FURTHERMORE, WE MUST DEVELOP NEW PROGRAMS TO EMPHASIZE INTERNATIONAL EDUCATION -- PARTICULARLY FOREIGN LANGUAGES AND EXPERTISE IN FOREIGN CULTURES.

IN SUMMARY, MY OPINION IS THAT THE LITTLE HOOVER REPORT IS ONE OF THE MOST OBJECTIVE AND INSIGHTFUL ANALYSES OF THE STATE'S ACTIVITIES IN WORLD TRADE THAT WE HAVE SEEN IN MANY YEARS. IT ACCURATELY PINPOINTS THE STRENGTHS OF THE STATE'S TRADE PROGRAMS AS WELL AS THE WEAKNESSES. FURTHERMORE, THE RECOMMENDATIONS OFFER NEW MEANS TO STRENGTHEN THE STATE'S ROLE IN TRADE AS WELL AS MAKE IT MORE RESPONSIVE TO THE NEEDS OF THE INTERNATIONAL BUSINESS COMMUNITY.

TESTIMONY OF PROFESSOR JULIAN NAVA  
CALIFORNIA STATE ASSEMBLY INTERNATIONAL TRADE AND  
INTERGOVERNMENTAL RELATIONS COMMITTEE  
LOS ANGELES, CALIFORNIA,  
NOVEMBER 4, 1987

ASSEMBLYWOMAN KILLEA, MEMBERS OF THE COMMITTEE, STAFF AND  
FRIENDS.

WE CAN ALL BE HAPPY TO HAVE THE REPORT OF THE CALIFORNIA STATE  
TASK FORCE ON CALIFORNIA-MEXICO RELATIONS BECAUSE THE REPORT  
PLACES A VERY IMPORTANT MATTER ON THE STATE AGENDA AS NEVER  
BEFORE. THE LEGISLATURE IS TO BE COMMENDED FOR AB 3697 THAT CALLED  
FOR THIS REPORT.

IT IS NOT CLEAR TO ME HOW MUCH OF THE ESSENTIAL DETAILS OF THE  
REPORT REFLECTS THE VIEWS OF ALL 14 MEMBERS OF THE TASK FORCE,  
SINCE I UNDERSTAND THAT BECAUSE THE REPORT WAS NOT FINISHED BY  
JUNE 30, 1987, THE CHAIR OF THE TASK FORCE APPOINTED AN EXECUTIVE  
COMMITTEE OF 4 MEMBERS AND HIMSELF TO COMPLETE THE REPORT. THE  
FINAL REPORT MAY HAVE BEEN COMPLETED LATE IN AUGUST OR EARLY  
SEPTEMBER AND THEN BACK-DATED TO JUNE 30, WITH NO FINAL MEETING  
WITH THE OTHER 10 TASK FORCE MEMBERS TO REVIEW THE FINAL DRAFT  
PREPARED BY THE EXECUTIVE COMMITTEE. LET ME SET ASIDE THIS QUESTION  
FOR NOW, HOWEVER, AND PROCEED TO RESPOND TO THE RECOMMENDATIONS  
AS I UNDERSTAND THEM.

RECOMMENDATION # 1 (PAGE IV OF REPORT, DATED JUNE 30, 1987);  
IT IS PROBABLY A GOOD IDEA TO REPLACE THE CURRENT Office of  
California-Mexico Affairs, WITH THE PROPOSED CALIFORNIA STATE OFFICE  
OF MEXICO RELATIONS. NAMES BY THEMSELVES MEAN LITTLE, HOWEVER. THE  
CURRENT OFFICE HAS NOT BEEN EFFECTIVE. HOWEVER, THIS IS DUE TO LACK  
OF SUPPORT IN PERSONNEL, BUDGET AND COMMITMENT FROM BOTH THE  
LEGISLATURE AND THE OFFICE OF THE GOVERNOR. MORE MUST BE DONE THAN  
SIMPLY CHANGE TITLES. AND THE REPORT SO RECOMMENDS.

RECOMMENDATION #2, THAT CALIFORNIA SHOULD ULTIMATELY  
ESTABLISH AN OFFICE IN MEXICO CITY SEEMS DESIRABLE, BUT SEVERAL  
QUESTIONS ARE NOT ANSWERED IN THE REPORT. WHAT DOES "ULTIMATELY"  
MEANT HOW LARGE SHOULD THE OFFICE BE? WOULD IT REPRESENT ONLY THE  
OFFICE OF THE GOVERNOR, OR STATE GOVERNMENT GENERALLY? LET ME  
SUGGEST THAT AS SIGNIFICANT AS IT SEEMS TO HAVE AN OFFICE IN MEXICO  
CITY, THE REAL DAILY ISSUES, PROBLEMS AND PROSPECTS LIE ALONG THE



BORDER WITH MEXICO. BORDER ACTIVITY IS FAR MORE IMPORTANT THAN WHAT GOES ON MEXICO CITY. I REFER TO TRADE, INDUSTRY (ESPECIALLY SHARED PRODUCTION THROUGH TWIN PLANTS), DRUG RELATED CRIME, FISHING AND TOURISM, TO NAME A FEW DAY TO DAY ISSUES. UNLESS WE HAVE THE RESOURCES, I SUGGEST WE INVIGORATE OUR RELATIONS AND COOPERATION ALONG THE BORDER. IN THIS REGARD, I UNDERSTAND THE STATE HAS JUST CLOSED THE SAN DIEGO OFFICE OF THE CURRENT Office of California-Mexico Affairs. SHOULD AN OFFICE IN MEXICO CITY BE ESTABLISHED, IT SHOULD BE ADEQUATELY FUNDED AND STAFFED. A LOCAL DIRECTOR AND A COUPLE OF SECRETARIES SIMPLY CANNOT DO THE JOB. IN ANY CASE, THE COSTS OF THE OFFICE ABROAD MUST BE BALANCED AGAINST THE URGENT NEEDS FOR STAFF AND RESOURCES FOR BILATERAL RELATIONS WITHIN CALIFORNIA AT THE LEVEL OF SACRAMENTO AND ALONG THE BORDER.

RECOMMENDATION # 3 ; AN ADVISORY COMMITTEE, AS SUGGESTED ON THE ORGANIZATIONAL CHART AFTER PAGE 17 SEEMS LIKE A GOOD IDEA AT FACE VALUE. OF COURSE THE EXPERTIZE OF ITS MEMBERS, HOW IT FUNCTIONS, THE QUALITY OF THE DIRECTOR AND THE COMMITMENT OF THE GOVERNOR IN QUESTION WILL DETERMINE WHETHER IT SERVES A USEFUL PURPOSE, OTHER THAN PRESTIGE FOR THE MEMBERS. EXPERIENCE DEMONSTRATES THAT WE NEED KNOWLEDGEABLE PEOPLE WITH READY ACCESS TO A COMMITTED GOVERNOR IN ORDER TO SERVE BILATERAL INTERESTS AS NEEDED. THOUGHT MIGHT BE GIVEN TO HAVING SUCH A COMMITTEE EMERGE FROM BOTH LEGISLATIVE AND ADMINISTRATIVE NOMINATIONS FOR BETTER BALANCE AND A REDUCTION OF PARTISANSHIP.

RECOMMENDATION #4 IT IS NOT CLEAR HOW TO IMPROVE THE EXISTING COMMISSION OF THE CALIFORNIAS. THE REPORT URGES THAT ITS SUCCESSOR UNDERTAKE MORE WORK WITH A SMALLER NUMBER OF MEMBERS, AND ELIMINATE THE DELEGATES. AS A FORMER MEMBER OF THE GROUP I FOUND THAT DELEGATES OFTEN CONTRIBUTED AS MUCH AS MEMBERS, AND THAT HOW EFFECTIVE THE COMMISSION WAS DEPENDED MOSTLY ON THE COMMITMENT OF OUR GOVERNOR. THE LT. GOVERNOR AS HEAD OF THE GROUP WAS NOT SOUND. EVEN WHEN THAT OFFICE AND THE GOVERNORSHIP WERE HELD BY THE SAME PARTY. MEXICANS ARE SENSITIVE TO THE APPARENT SLIGHT WHEN BAJA GOVERNORS ASSIST COMMISSION MEETINGS. AND ONLY A LT GOVERNOR FROM THE US SIDE APPEARS. FRANKLY I QUESTION THE VALUE OF THE COMMISSION UNLESS IT IS UPGRADED IN INFLUENCE. IF ANY COMMISSION IS RETAINED CARE MUST BE TAKEN THAT ONLY TRULY COMMITTED MEMBERS AS SELECTED. RATHER THAN PARTISAN PALS AND THOSE WHO HAVE MAINLY PERSONAL BUSINESS INTERESTS TO SERVE.

RECOMMENDATION #5 ; OUR OFFICE IN WASHINGTON CAN SHAPE POLICY BY IMPROVING THE INFORMATION AVAILABLE TO BOTH THE OFFICE OF THE GOVERNOR AND THE LEGISLATURE IN A TIMELY MANNER. BEFORE MORE MONEY AND STAFF ARE USED IN THIS AREA, WE SHOULD INSTEAD IMPROVE RELATIONS WITH THE CALIFORNIA CONGRESSIONAL DELEGATION. EACH OF THESE ELECTED OFFICIALS HAS PLENTY OF STAFF AVAILABLE TO SHAPE REPORTS TO THE GOVERNORS OFFICE AND THE LEGISLATURE.

RECOMMENDATION #6 ; YOU WILL BE GLAD TO KNOW THAT ALL MANNER OF NEW CONTRACTS ARE EMERGING BETWEEN CALIFORNIAN GROUPS FROM ALL WALKS OF LIFE, AND THEIR COUNTERPARTS IN MEXICO. I CAN ATTEST TO THIS PERSONALLY. INDEED, THE NEWEST SUCH CONTACTS INVOLVE WELL-ORGANIZED, VOLUNTEER AND UNOFFICIAL CONFERENCES BETWEEN MEXICAN AMERICAN INDIVIDUALS AND GROUPS WITH THEIR PEERS IN MEXICO, BORROWING FROM THE HIGHLY SUCCESSFUL PRATICES OF THE JEWISH COMMUNITY IN THE U.S. GENERALLY, THE STATE MIGHT DO WELL TO LEAVE CITIZENS ALONE TO DO THEIR OWN THING. AS A MEMBER OF THE NATIONAL U.S./MEXICO CHANBER OF COMMERCE BOARD OF DIRECTORS, I WOULD SAY WE DONT REALLY NEED OR WANT ACTIVE STATE GOVERNMENT INVOLVEMENT BECAUSE OF THE POLITICAL AND PARTISAN PRICE TAG. HERE I SPEAK AS AN INDIVIDUAL. AS YOU KNOW, THE UNIVERSITY OF CALIFORNIA HAS AN EXEMPLARY UC/MEXUS PROGRAM. I AM PROUD TO HAVE ONE OF ITS PARENTS WHILE AT THE US EMBASSY IN MEXICO. HARVARD UNIVERSITY ALSO GLADLY ACCEPTED THE SUGGESTION FOR JOINT VENTURES IN MEXICO, AND SO TOO DID THE NATIONAL COMMUNITY COLLEGES. OUR CALIFORNIA STATE UNIVERSITY SYSTEM SHOWED NO SYSTEM-WIDE INTEREST, LEAVING THE MATTER TO INDIVIDUAL CAMPUS STAFF. FRANKLY I WOULD NOT ENCOURAGE STATE GOVERNMENT INVOLVEMENT IN MATTERS BEST LEFT TO CITIZENS.

CONCLUSION: I SUPPORT THE THRUST OF THE TASK FORCE REPORT. HOWEVER, IT SHOULD BE CAREFULLY STUDIED BEFORE ACTION IS TAKEN. I WOULD ENCOURAGE THE LEGISLATURE TO BECOME MORE INVOLVED IN CALIFORNIA/ MEXICO AFFAIRS, AS WELL AS THE OFFICE OF THE GOVERNOR.

THE IMPORTANCE OF CALIFORNIA/MEXICO RELATIONS IS SUCH THAT OUR STATE GOVERNMENT MUST ALLOCATE ADEQUATE RESOURCES TO THIS END. PINCHING PENNIES NOW WILL PROVE TO BE FALSE ECONOMY. LET US NOT BE BLINDED BY IGNORANCE. THE BENEFITS OF BETTER RELATIONS WITH MEXICO EXTEND FAR BEYOND WHAT CAN BE COUNTED IN THE VOLUME OF TRADE DOLLARS. ASIA AND EUROPE ARE NOT NEXT DOOR.

THANK YOU



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ASSEMBLY COMMITTEE ON INTERNATIONAL TRADE

AND

INTERGOVERNMENTAL RELATIONS

A RESPONSE TO THE REPORT BY

THE STATE TASK FORCE ON CALIFORNIA-MEXICO RELATIONS

"STRENGTHENING CALIFORNIA-MEXICO RELATIONS"

LOS ANGELES, CALIFORNIA

WEDNESDAY, NOVEMBER 4, 1987

RICARDO P. REYES

CALIFORNIA HISPANIC CHAMBERS OF COMMERCE



HONORABLE CHAIRWOMAN, MEMBERS OF THE COMMITTEE, MY NAME IS RICARDO P. REYES AND I AM HERE TODAY AS A REPRESENTATIVE ON INTERNATIONAL COMMERCE AND TRADE ISSUES FOR THE CALIFORNIA HISPANIC CHAMBERS OF COMMERCE (CHCC).

BEFORE BEGINNING MY COMMENTS I WOULD LIKE TO PRESENT THE PROFILE OF THE CHCC. THE CHCC IS A STATEWIDE TRADE ASSOCIATION FORMED IN 1979 AND COMPRISED OF 28 CHAMBERS WITH OVER 7,000 MEMBERS. THE CHCC'S CHAMBERS ARE SITUATED FROM SAN DIEGO IN THE SOUTH TO SACRAMENTO AND YOLO COUNTY IN THE NORTH. THE OLDEST CHAMBER IS THE LOCAL CAMARA COMERCIO MEXICANA DEL CONDADO DEL LOS ANGELES FORMED IN 1930. AS A TRADE ASSOCIATION THE CHCC ADVOCATES FOR THE ECONOMIC INTERESTS, BUSINESS OPPORTUNITIES AND DEVELOPMENT OF BOTH THE MEMBERSHIP AND THE HISPANIC MARKET OR POPULATION WE SERVE. MANY OF OUR MEMBERS ARE INVOLVED WITH INTERNATIONAL BUSINESS WHETHER IT BE THE IMPORTATION OF SPECIALTY PRODUCTS OR AS PROFESSIONALS IN A MULTI-NATIONAL SETTING. THE MAJORITY OF THE MEMBERS ARE SMALL BUSINESS ENTREPRENEURS WHO ARE BASED SOLIDLY IN A BURGEONING HISPANIC MARKET WITH STRONG IMMIGRATION PATTERNS.

AS AN APPOINTED REPRESENTATIVE I WOULD LIKE TO THANK YOU FOR THIS OPPORTUNITY TO RESPOND TO THE REPORT "STRENGTHENING CALIFORNIA-MEXICO RELATIONS" AS PREPARED RECENTLY BY THE STATE TASK FORCE ON CALIFORNIA-MEXICO RELATIONS. THIS HEARING COMES AT AN OPPORTUNE TIME SINCE JUST LAST WEEK THE CHCC CO-SPONSORED ALONG WITH THE GOVERNOR'S OFFICE OF CALIFORNIA-MEXICO AFFAIRS, THE FIRST ANNUAL CALIFORNIA/MEXICO BUSINESS CONFERENCE HERE IN LOS ANGELES.

THE DAYLONG CONFERENCE ON OCTOBER 29, 1987 DEMONSTRATED INITIATIVE AND SUPPORT BY THE CHCC AND THE HISPANIC PRIVATE SECTOR IN EXAMINING, FUNDING AND PROMOTING RELATIONS THAT CAN LEAD TO BUSINESS ACTIVITY. THE INTEREST GENERATED BY THE CONFERENCE SHOWS THAT BUSINESS INSTITUTIONS, IN ADDITION TO SMALL ENTREPRENEURS, ARE WILLING TO COMMIT TO THIS AND FUTURE PROGRAMS. WHILE THIS WAS NOT THE FIRST OF A KIND ACTIVITY, THE EVENT DISPLAYED A BROADENING OF INTEREST GROUPS EXTENDING THROUGH THE SMALL BUSINESS COMMUNITIES OF THE CHCC. THE HIGH LEVEL RESPONSE AND PARTICIPATION OF THE MEXICAN BUSINESS AND GOVERNMENT SECTORS VERIFIES THAT MEXICO VALUES THE EFFORTS OF CALIFORNIAS TO ESTABLISH BUSINESS TIES WHICH CAN ADDRESS THE REALITIES AND PROSPECTS FOR BILATERAL COMMERCIAL AND TRADE DEVELOPMENT. IT IS THE CHCC'S GOAL TO CONTINUE IN SIMILAR ENDEAVORS AND PERHAPS WITH A CONSORTIUM OF OTHER TRADE ASSOCIATIONS, GOVERNMENT BODIES AND LARGE BUSINESS INSTITUTIONS.

THE CHCC HAS BEEN A LONGTIME SUPPORTER OF STRENGTHENED RELATIONS BETWEEN CALIFORNIA AND MEXICO. MANY OF THE RECOMMENDATIONS CONTAINED IN THE TASK FORCE REPORT ARE ACCEPTABLE AND POINT IN THE RIGHT DIRECTION TOWARDS A COHERENT CONSISTENT PROGRAM. THERE ARE A NUMBER OF CONSIDERATIONS THAT NECESSITATE CLARIFICATION.

AS A TRADE ASSOCIATION OF SMALL AND MEDIUM SIZE BUSINESS OWNERS, THE CHCC ADVOCATES FOR THE ESTABLISHMENT OF A COMMERCIAL AND TRADE OFFICE IN MEXICO CITY. THE SMALL BUSINESS COMMUNITY HAS MUCH TO BENEFIT FROM HAVING A CALIFORNIA REPRESENTATIVE LOCATED IN WHAT WILL SOON BE THE LARGEST CITY IN THE WORLD.

AS SMALL BUSINESS OWNERS OUR RESOURCES ARE LIMITED AND WE MUST RELY UPON AVAILABLE RESOURCES, ESPECIALLY IN THE INTERNATIONAL ARENA, TO ACCESS CURRENT INFORMATION, LEADS AND OPPORTUNITIES. RELYING SOLELY UPON THE FEDERAL TRADE ASSISTANCE PROGRAMS IS DISADVANTAGEOUS FOR US ON THE WEST COAST. HAVING A CALIFORNIA OFFICE IN MEXICO CITY WOULD HOPEFULLY PROVIDE THE NECESSARY EXPERTISE AND BACKUP TO ALERT US TO CHANGING CONDITIONS AS WELL AS TO FACILITATE EFFICIENT AND PROFITABLE COMMERCE.

WE REALIZE THAT A CALIFORNIA OFFICE IN MEXICO CITY CAN NOT SERVE ALL NEEDS. THE CHCC MAINTAINS THAT A COMMERCIAL OFFICER OR STAFF IS ESSENTIAL TO WHATEVER OPERATION IS ULTIMATELY DECIDED UPON. THIS PROGRAM WOULD BE COMPARABLE TO CALIFORNIA'S OFFICES IN LONDON AND TOKYO. FURTHER ANALYSIS OF THE LONDON AND TOKYO OPERATIONS IS REQUIRED IN DESIGNING THE MEXICO CITY BRANCH.

FUTHERMORE, IT IS RECOGNIZED THAT THE CALIFORNIA STATE WORLD TRADE COMMISSION HAS BEEN MORE DIRECTED TO ASIA AND EUROPE AND IS ONLY RECENTLY LOOKING TOWARD MEXICO AND LATIN AMERICA. FURTHER EXAMINATION COULD BE MADE OF WHAT ROLE OR ORGANIZATIONAL RELATIONSHIP MIGHT EXIST BETWEEN A CALIFORNIA OFFICE IN MEXICO CITY AND THE CALIFORNIA STATE WORLD TRADE COMMISSION. CALIFORNIA'S PRESENCE IN MEXICO SHOULD BE VIEWED AS AN INTEGRAL COMPONENT IN THE OVERALL INTERNATIONAL STRATEGY.

IT IS REALIZED THAT A CALIFORNIA OFFICE IN MEXICO CITY CAN NOT SERVE THE NEEDS OF ONLY A FEW. THE PROPOSED OFFICE IN MEXICO CITY COULD COVER THE BROAD SPECTRUM OF ISSUES BESIDES COMMERCE AND TRADE. THE CHCC ACKNOWLEDGES AND ENCOURAGES THAT A CALIFORNIA OFFICE IN MEXICO CITY BE CONCERNED WITH EDUCATIONAL, ENVIRONMENTAL AND POLITICAL ISSUES AMONG OTHERS. OUR CONCERN IS THAT A COMMERCIAL



REPRESENTATIVE OF CALIFORNIA REMAIN ABLE TO OPERATE IN A BIPARTISAN AND CONTINUOUS TRADITION AND THAT THE REPRESENTATIVE HAVE THE ACCUMULATED RESPECTABILITY OF BOTH THE CALIFORNIAN AND MEXICAN BUSINESS COMMUNITIES. ADDITIONALLY, A COMMERCIAL OFFICER SHOULD HAVE A STRONG SMALL BUSINESS BACKGROUND SINCE IT IS THIS SECTOR THAT IS IMPACTED TREMENDOUSLY IN BUSINESS DOWNTURNS AND STILL MANAGES TO CONTRIBUTE TO OVERALL ECONOMIC ACTIVITY. THIS INDIVIDUAL OR STAFF SHOULD OPERATE ON A PREMISE OF A LONG TERM COMMITMENT REGARDLESS OF THE SHIFT IN ECONOMIC OR POLITICAL CLIMATE.

THE CHCC HAS WORKED SUCCESSFULLY WITH THE OFFICE OF CALIFORNIA-MEXICO AFFAIRS. IT IS OUR OPINION THAT A REORGANIZATION SHOULD BE UNDERTAKEN WITH THE PURPOSE OF STRENGTHENING RATHER THAN DIMINISHING THE EFFECTIVENESS. THE OFFICE IS UNDERSTAFFED AND NEEDS TO BE BOLSTERED. REGARDING THE COMMISSION OF THE CALIFORNIANS, THE CHCC IS UNABLE TO COMMENT ON THE RECOMMENDATIONS TO REORGANIZE AND STREAMLINE DUE TO MINIMUM INTERACTION AND KNOWLEDGE OF THE COMMISSION'S ACTIVITIES.

ALL TOO OFTEN, CALIFORNIA AND MEXICO RELATIONS ARE VIEWED IN A CYCLE OF POPULARITY OR DISFAVOR. LEADING UP TO 1982, BEFORE MEXICO'S DEBT CRISIS, MANY REPORTS AND STUDIES PREVAILED PRAISING THE VAST OPPORTUNITIES FOR U.S. - MEXICO BUSINESS RELATIONS. FOR THE LAST FIVE YEARS IT HAS BEEN A DIFFICULT PROPOSITION TO RAISE INTEREST AND SUPPORT FOR STRENGTHENED CALIFORNIA-MEXICO RELATIONS. WHATEVER THE OUTCOME OF THESE HEARINGS AND TASK FORCE RECOMMENDATIONS, INSTITUTIONALIZED PROGRAMS ARE NEEDED AND THE COMMITMENT MUST BE CONSISTENT AND REMAIN CONSTANT ESPECIALLY DURING PERIODS

OF ECONOMIC SLOWDOWN.

I WOULD LIKE TO CONCLUDE WITH THIS EXCERPT FROM A 1981 STUDY THAT IS OF RELEVANCE TO TODAY'S PROCEEDINGS:

SOUTHERN CALIFORNIA IS FIFTY PERCENT MORE HEAVILY INVOLVED THAN THE REST OF THE UNITED STATES IN TRADE WITH MEXICO. SOUTHERN CALIFORNIA IS SIMILARLY REPRESENTED IN OTHER ASPECTS OF BUSINESS AND FINANCE. INDEED, IT IS ECONOMICS AND TRADE, MORE THAN POLITICS AND DIPLOMACY, THAT ARE IMPROVING U.S. - MEXICO RELATIONS. THE TWO COUNTRIES NEED ONE ANOTHER.

THE 1981 STUDY IS ENTITLED "MEXICO AND SOUTHERN CALIFORNIA..... TOWARD A NEW PARTNERSHIP" AS PREPARED BY THE SOUTHERN CALIFORNIA RESEARCH COUNCIL.



ASSEMBLY  
CALIFORNIA LEGISLATURE

ASSEMBLY COMMITTEE ON  
INTERNATIONAL TRADE & INTERGOVERNMENTAL RELATIONS

PERSPECTIVES ON THE INTERNATIONALIZATION OF  
CALIFORNIA STATE GOVERNMENT

"STRENGTHENING CALIFORNIA - MEXICO RELATIONS"

NOVEMBER 4, 1987  
LOS ANGELES, CALIFORNIA

STATEMENT BY ROBERT L. RENEAU  
PRESIDENT  
FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA  
PRESIDENT  
WESTERN MAQUILADORA TRADE ASSOCIATION



STATEMENT BY ROBERT L. RENEAU  
PRESIDENT - FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA  
PRESIDENT - WESTERN MAQUILADORA TRADE ASSOCIATION  
BEFORE THE CALIFORNIA STATE ASSEMBLY  
INTERNATIONAL TRADE & INTERGOVERNMENTAL RELATIONS COMMITTEE  
"THE MAQUILADORA INDUSTRY: IMPACT ON CALIFORNIA-MEXICO BORDER  
DEVELOPMENT"

NOVEMBER 4, 1987

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MADAME CHAIRWOMAN, MEMBERS, GUESTS AND STAFF OF THE ASSEMBLY COMMITTEE ON INTERNATIONAL TRADE AND INTERGOVERNMENTAL RELATIONS, IT IS A PLEASURE FOR ME TO BE HERE TODAY TO DISCUSS THE ECONOMIC IMPACT OF THE MAQUILADORA INDUSTRY ON CALIFORNIA-MEXICO RELATIONS AND DEVELOPMENT ALONG OUR COMMON BORDER.

MY NAME IS ROBERT L. RENEAU AND I AM THE PRESIDENT OF TWO TRADE ASSOCIATIONS THAT FOCUS ON INTERNATIONAL TRADE. THE FOREIGN TRADE ASSOCIATION OF SOUTHERN CALIFORNIA, FOUNDED IN 1919 IS THE OLDEST AND LARGEST OF SUCH TRADE ORGANIZATIONS IN CALIFORNIA. OUR PRIMARY PURPOSE IS TO PROMOTE AND ENCOURAGE INTERNATIONAL COMMERCE BETWEEN THE U.S. AND OTHER COUNTRIES, TO KEEP OUR MEMBERS APPRAISED ON MATTERS AFFECTING TRADE AND WHERE DESIRABLE, TAKE POSITIONS ON TRADE LEGISLATION. THE FTA IS COMMONLY ACKNOWLEDGED TO BE THE MOST INFLUENTIAL TRADE ORGANIZATION IN SOUTHERN CALIFORNIA.

THE WESTERN MAQUILADORA TRADE ASSOCIATION IS AN ASSOCIATION OF 75 U.S. AND FOREIGN FIRMS THAT OPERATE MAQUILADORAS IN BAJA CALIFORNIA,

MEXICO. THE COMBINED EMPLOYMENT OF OUR MEMBERS REPRESENT APPROXIMATELY ONE HALF OF ALL SUCH EMPLOYEES IN TIJUANA. WHILE THERE ARE SIMILAR ASSOCIATIONS IN MEXICO THAT REPRESENT MAQUILADORAS, WE ARE, TO THE BEST OF OUR KNOWLEDGE, THE ONLY U.S. BASED ORGANIZATION TO DO SO.

THE OBJECTIVES OF THE WMTA ARE TO:

- O PROMOTE AND FOSTER GOOD BUSINESS RELATIONS BETWEEN THE U.S. AND MEXICO;
- O AID IN STRENGTHENING COMMUNICATION LINKS BETWEEN U.S. AND MEXICAN MAQUILADORA MANAGEMENT PERSONNEL;
- O CONDUCT RESEARCH AND ANALYSIS IN AREAS OF SPECIFIC CONCERN TO THE MEMBERSHIP;
- O PROMOTE A BETTER UNDERSTANDING OF THE PURPOSES AND WORKINGS OF THE MEXICAN MAQUILADORA INDUSTRY.

AT THE RISK OF BEING REDUNDANT, I WOULD LIKE TO INSURE THAT EVERYONE UNDERSTANDS THE TERMS PRODUCTION SHARING AND MAQUILADORA.

SOME YEARS BACK, IF A FARMER HAD GRAIN HE WANTED GROUND INTO FLOUR OR MEAL, HE TOOK IT TO A MILLER. AS PAYMENT FOR HIS SERVICES, CASH OR A PORTION OF GRAIN WOULD BE KEPT BY THE MILLER. IN SPANISH THAT PORTION OF GRAIN COLLECTED BY THE MILLER FOR GRINDING OTHER PEOPLE'S GRAIN WAS CALLED THE MAQUILA. ORIGINALLY, MAQUILA WAS THE PAYMENT FOR THE SERVICE. AS IT IS

CURRENTLY USED, MAQUILA REFERS TO THE ACTUAL SERVICE AND THE WORD MAQUILADORA REFERS TO THE ACTUAL PLANT. IN ANY LANGUAGE, IT MEANS PRODUCTION SHARING IN MEXICO.

THOSE WHO FOLLOW PETER DRUCKER MAY REMEMBER THAT HE COINED THE PHRASE "PRODUCTION SHARING." HE USED THE WORDS TO DESCRIBE THE DIVISION OR SHARING OF THE PRODUCTION PROCESS BETWEEN TWO OR MORE COUNTRIES, EACH USING THE RESOURCES IN WHICH IT HAS AN ADVANTAGE OVER THE OTHER. THE UNITED STATES HAS THE KNOWLEDGE, LABOR SKILLS, AND CAPITAL TO DESIGN PRODUCTS AND MANUFACTURE THE COMPONENTS NEEDED. THIS PORTION OF THE MANUFACTURING PROCESS REQUIRES A HIGHER LEVEL OF EDUCATION AND/OR EXPERTISE THAN THE ASSEMBLY PORTION WHICH REQUIRES MAINLY NON-SKILLED OR SEMI-SKILLED LABOR. MEXICO HAS THE ADVANTAGE IN THIS PORTION OF THE PROCESS.

COMPETITIVENESS AND PRODUCTION SHARING ARE HEARD QUITE OFTEN TODAY BUT IN MANY WAYS THESE TERMS ARE NOT CLEARLY UNDERSTOOD. THE PRESIDENT'S COMMISSION ON INDUSTRIAL COMPETITIVENESS IN ITS 1985 REPORT DEFINED THE COMPETITIVENESS OF A FIRM AS ITS ABILITY TO PRODUCE "PRODUCTS OR SERVICES OF A SUPERIOR QUALITY OR LOWER COST THAN ITS DOMESTIC OR INTERNATIONAL COMPETITORS." THE REPORT CONTINUES TO SAY THAT "COMPETITIVENESS IS THEN SYNONYMOUS WITH A FIRM'S LONG RUN PROFITABLE PERFORMANCE AND ITS ABILITY TO COMPENSATE ITS EMPLOYEES AND PROVIDE SUPERIOR RETURNS TO ITS OWNERS."



THE LAST TWO DECADES HAVE SEEN THE CREATION OF A GLOBAL ECONOMY IN WHICH PRODUCTS ARE BOUGHT AND SOLD NOT ON A NATIONAL OR REGIONAL BASIS BUT WORLDWIDE. THIS HAS CREATED NEW SOURCES OF COMPETITION THAT HAVE FORCED U.S. CORPORATIONS TO LOOK FOR NEW WAYS TO STRUCTURE THEIR OPERATIONS. IT REQUIRES THAT THE PRODUCT OF TODAY BE OF THE BEST QUALITY AND AT THE MINIMUM POSSIBLE END-COST. TO ACHIEVE THIS GOAL, U.S. MANAGEMENT HAD TO ASSESS BOTH INTERNAL AND EXTERNAL FACTORS. INTERNALLY, QUESTIONS HAVE TO BE ASKED AND DECISIONS MADE AS TO CORPORATE STRUCTURE, CORPORATE ENVIRONMENT, CONDITION OF PLANT AND EQUIPMENT, DEBT STRUCTURE, BASIC ATTITUDES TOWARDS PRODUCT QUALITY, CUSTOMER SERVICE AND TRAINING AND DEVELOPMENT OF EMPLOYEES.

EXTERNALLY, IT HAS HAD TO COPE WITH NEW COMPETITION FROM FOREIGN FIRMS WHICH QUITE OFTEN OPERATE UNDER COMPLETELY DIFFERENT SETS OF COST, PARTICULARLY FOR LABOR. UNTIL VERY RECENTLY, U.S. COMPANIES HAVE HAD TO COPE WITH A GREATLY OVERVALUED DOLLAR AND FOREIGN GOVERNMENT PRACTICES WHICH PROVIDE SUBSIDIES, LOW COST CAPITAL, FAVORABLE EXPORT FINANCING AND BARRIERS TO THE LOCAL MARKET.

AS A REACTION TO CHALLENGES POSED BY FOREIGN COMPETITION AND BY THE EXISTANCE OF LARGE WAGE DIFFERENTIALS BETWEEN THE U.S. AND MEXICO, U.S. COMPANIES HAVE LOOKED TO PRODUCTION SHARING AS ONE OF THE OPTIONS TO REDUCE PRODUCT COST. THE MAQUILADORA INDUSTRY IN MEXICO HAS GROWN TREMENDOUSLY SINCE THE PESO DEVALUATION OF 1982. IT NOW EMPLOYS 300,000 PEOPLE AT 1,000 PLANTS LOCATED

MAINLY ALONG THE U.S.-MEXICO BORDER. THE CALIFORNIA-MEXICO BORDER REGION HAS ABOUT 400 PLANTS EMPLOYING 50,000 PEOPLE.

I URGE THE COMMITTEE NOT TO MAKE THE SIMPLISTIC ASSUMPTION THAT 300,000 JOBS IN MEXICO EQUATES TO 300,000 FEWER JOBS IN THE U.S. OR 50,000 FEWER JOBS IN CALIFORNIA. THE FACTS DO NOT SUPPORT THIS FALLACY. IT IS EASY TO POINT OUT A FACTORY WORKER WHO NO LONGER HAS AN ASSEMBLY JOB BECAUSE OF A SHIFT TO OFFSHORE PRODUCTION. IF ONE POINTS OFTEN ENOUGH, IT CREATES THE ILLUSION THAT ALL MANUFACTURING WILL EVENTUALLY BE DONE SOMEWHERE BESIDES THE U.S.

WHAT IS NOT SO EASY TO SEE, BUT IS NO LESS REAL, IS THE

- A) OTHER OR ADDITIONAL FACTORY WORKER WHO IS ABLE TO KEEP HIS OR HER JOB BECAUSE THE PRODUCT ASSEMBLED OFFSHORE CAN NOW COMPETE WITH WHOLLY FOREIGN PRODUCED PRODUCTS; AND
- B) THE ADDITIONAL SUPPORT PERSONNEL NEEDED IN COMPONENT FABRICATION, TRANSPORTATION, SCHEDULING AND NUMEROUS OTHER ACTIVITIES ASSOCIATED WITH PRODUCTION SHARING.

THE JOB CREATING ABILITY OF THE AMERICAN ECONOMY IS THE ENVY OF THE FREE WORLD. SINCE 1966, WE HAVE CREATED AN AVERAGE OF 1.5 MILLION NEW JOBS A YEAR. WHILE THE NUMBER OF PEOPLE EMPLOYED IN THE MANUFACTURING SECTOR IS ABOUT THE SAME, THERE IS NO PAT ANSWER AS TO THE REASONS WHY. MUCH OF THIS ZERO JOB GROWTH HAS OCCURRED IN INDUSTRIES NOT AFFECTED BY MAQUILADORAS SUCH AS STEEL

AND MACHINE TOOLS. CERTAINLY, IT IS FOOLISH TO ASSOCIATE THE MEXICAN MAQUILA INDUSTRY WITH THIS LACK OF GROWTH.

ITS AFFECT, IF ANY, ON MANUFACTURING EMPLOYMENT IN CALIFORNIA HAS BEEN BENEFICIAL. INDUSTRIAL EMPLOYMENT IN LOS ANGELES COUNTY AREA IS UP 9.3 PERCENT FROM THREE YEARS AGO. THE NUMBER OF FACTORY WORKERS IN RIVERSIDE AND SAN BERNARDINO COUNTIES IS UP 37 PERCENT OVER 1975. ORANGE COUNTY INDUSTRIAL EMPLOYMENT HAS INCREASED 57 PERCENT DURING THE SAME PERIOD (CALIFORNIA BUSINESS - MAY 1987).

ONE NEED ONLY READ THE NEWSPAPER TO KNOW THAT THE MAQUILA INDUSTRY HAS ATTRACTED A NUMBER OF FOREIGN FIRMS. APPROXIMATELY 1/3 TO 1/2 OF THE PEOPLE WORKING IN TIJUANA MAQUILADORAS ARE EMPLOYED BY JAPANESE FIRMS. THERE ARE INDICATIONS OF SOME INTEREST BY SOUTH KOREAN FIRMS AS WELL. THESE COMPANIES, FOR THE MOST PART, OPERATE FROM A CALIFORNIA PARENT FACILITY WITH SIGNIFICANT EMPLOYEES IN CALIFORNIA. WERE IT NOT FOR THE MAQUILAS, THESE FACILITIES COULD WELL BE LOCATED IN THE ORIENT.

THE POSITIVE IMPACT ON THE BORDER ECONOMY OF WAGES PAID TO MEXICAN MAQUILA EMPLOYEES HAS BEEN DOCUMENTED AND PROVEN BY EMPIRICAL EVIDENCE, TIME AND TIME AGAIN. THE FOLLOWING STATEMENTS, TAKEN FROM USITC PUBLICATION 1915, "THE IMPACT OF INCREASED U.S./MEXICO TRADE ON SOUTHWEST BORDER DEVELOPMENT," SERVE TO SUPPORT THE THESIS THAT THE U.S., PARTICULARLY CALIFORNIA, DERIVES A GREAT DEAL OF BENEFIT FROM PAYMENTS TO MAQUILA EMPLOYEES AND VENDORS.

- A. SPENDING BY MEXICAN NATIONALS IN THE U.S. BORDER AREA HAS SIGNIFICANTLY EXCEEDED MEXICAN TOURIST SPENDING ABROAD FOR THE YEARS 1979 - 1984.
- B. THIRTY-SEVEN PERCENT OF WHOLESALE AND RETAIL SALES IN EL PASO IS ESTIMATED TO BE TO MEXICANS. IN BROWNSVILLE IT WAS SIXTY-EIGHT PERCENT BEFORE THE 1982 DEVALUATION AND IN LAREDO IT WAS EIGHTY PERCENT.
- C. MEXICAN NATIONALS COMPRISE TWENTY TO FIFTY PERCENT OF THE CLIENTELE OF EL PASO'S PHYSICIANS AND DENTISTS.
- D. FORTY PERCENT OF THE CONDOMINIUMS ON SOUTH PADRE ISLAND NEAR BROWNSVILLE WERE BOUGHT BY MEXICAN NATIONALS.
- C. IN SAN DIEGO COUNTY IN 1983, AN ESTIMATED 4.4% OR \$51.0 MILLION OF SHOPPING CENTER SALES WERE TO MEXICANS. THE VOLUME AND PERCENTAGE VARIES DIRECTLY WITH THE DISTANCE FROM THE BORDER, RANGING FROM 49.2% IN SAN YSIDRO TO 6.6% IN LA JOLLA.

THE ECONOMIC BENEFIT OF MEXICAN EXPENDITURES, WHICH CERTAINLY INCLUDE MAQUILA WAGES, IN THE U.S. BORDER REGION CAN BEST BE DEMONSTRATED BY THE SEVERE ECONOMIC SHOCK SUFFERED BY THESE COMMUNITIES FOLLOWING THE 1982 PESO DEVALUATION. THIS IMPACT WAS SEVERE ENOUGH TO QUALIFY SOME OF THE U.S. BORDER COUNTIES FOR FEDERAL ECONOMIC DISASTER AID. (HARRELL & FISHER, "THE 1982 MEXICAN PESO DEVALUATION.")

THE MAQUILA INDUSTRY HAS GREATLY INFLUENCED THE SKILL LEVELS OF THE AVERAGE MEXICAN WORKER BY CREATING A DEMAND FOR TECHNICIANS,

CLERKS, SUPERVISORS AND OTHER SALARIED PERSONNEL NECESSARY TO OPERATE A BUSINESS UNDER U.S. MANAGEMENT METHODS. MOST OF THE PLANTS ARE OPERATED UNDER U.S. PROCEDURES SO THAT DATA AND INFORMATION CAN BE EXCHANGED AND COMPILED EASILY. THE WMTA HAS WORKED WITH PUBLIC AND PRIVATE EDUCATION INSTITUTIONS IN TIJUANA TO INCREASE THE QUALITY OF THEIR CURRICULUM TO MEET THIS DEMAND. NO ONE CAN DISPUTE THAT EDUCATION AND THE ACQUISITION OF SKILLS BY OUR CITIZENS HAS BEEN BENEFICIAL TO THE U.S. IT WILL DO THE SAME FOR MEXICO. A STABLE, SECURE MEXICO WITH A PER CAPITA PURCHASING POWER AT LEAST COMPARABLE TO THE U.S. COULD ONLY BE BENEFICIAL TO US. WE THINK THE MAQUILADORAS ARE AN EXCELLENT MEANS TO THIS END.

ATTEMPTS TO DISCOURAGE OR TO ENACT LEGISLATION TO LIMIT THE MAQUILA INDUSTRY IN MEXICO OR PRODUCTION SHARING IN GENERAL WILL PROVE DETRIMENTAL TO THE COMPETITIVENESS OF AMERICAN INDUSTRY. ONE NEED ONLY LOOK AT THE MAGNITUDE OF THE JAPANESE PRESENCE IN TIJUANA TO GAUGE THE ECONOMIC VIABILITY AND DESIRABILITY OF THIS INDUSTRY.

ONE OF THE OFTEN MENTIONED CHANGES TO DISCOURAGE MAQUILADORAS IS TO ELIMINATE THE DUTY FREE TREATMENT OF U.S. ORIGIN COMPONENTS ASSEMBLED IN MEXICO AND RETURNED TO THE U.S. UNDER TARIFF SCHEDULE ITEM 807.00. I ASK THE COMMITTEE TO NOTE THAT 97% OF ALL COMPONENTS USED IN MEXICO ARE OF USA ORIGIN, A MUCH HIGHER PERCENTAGE THAN ANY OTHER COUNTRY. ELIMINATION OF TSUS 807 WOULD TAKE AWAY ANY INCENTIVE TO USE U.S. COMPONENTS, REDUCE THE PRICE

ADVANTAGE OF A U.S. COMPONENT BY A PERCENTAGE EQUAL TO THE DUTY RATE ON THE FINISHED PRODUCT AND PROBABLY CAUSE MANY MORE COMPONENTS TO BE SOURCED FROM OUTSIDE THE U.S. IT WOULD ALSO FORFEIT THE MAQUILA INDUSTRY AND ALL THE BENEFITS THEREOF TO FOREIGN FIRMS WHO DO NOT UTILIZE U.S. COMPONENTS IN THEIR ASSEMBLY OPERATIONS.

ELIMINATION OF TSUS 807 DUTY FREE PROVISIONS WOULD BE DETRIMENTAL TO THE MARKET FOR U.S. ORIGIN COMPONENTS, THE U.S. WORKER, THE U.S. CONSUMER, THE U.S. SHAREHOLDER AND U.S. TRADE AND INVESTMENT.

IT IS IMPORTANT TO REALIZE THAT THE MAQUILADORA INDUSTRY IS NOT -

- A. THE RESULT OF A BILATERAL TREATY BETWEEN THE U.S. AND MEXICO. THE "BORDER INDUSTRIALIZATION PROGRAM" WAS INITIATED BY MEXICO IN 1965, AND FORMALIZED INTO LAW IN 1971. U.S. TARIFF ITEM TSUS 807.00 WAS ENACTED IN 1963 TO CORRECT AN ANOMALY BETWEEN THEN EXISTING PRACTICE AND A COURT CASE.
- B. UNIQUE TO MEXICO - PRODUCTION SHARING IS UTILIZED IN A NUMBER OF ASIAN, CARIBBEAN, CENTRAL AMERICAN AND AFRICAN NATIONS.
- C. JUST FOR U.S. FIRMS - TSUS 807.00 IS OPEN TO ANY FIRM WHO MEETS THE CONDITIONS OF THE REGULATIONS. APPROXIMATELY 1/2 TO 1/3 OF THE MAQUILADORA EMPLOYEES IN TIJUANA WORK FOR JAPANESE COMPANIES.

IT IS AN INDUSTRY THAT -

- A. PROMOTES CULTURAL UNDERSTANDING AND TOLERANCE ON BOTH SIDES OF THE BORDER.
- B. INCREASES THE QUALITY OF EDUCATION IN MEXICO.
- C. ENABLES U.S. FIRMS TO COMPETE WITH WHOLLY FOREIGN ORIGIN PRODUCTS.
- D. HAS GREATLY ASSISTED THE COMMERCIAL DEVELOPMENT OF THE CALIFORNIA-MEXICO BORDER REGION.

I ENCOURAGE THIS COMMITTEE TO ENDORSE THE MAQUILADORA INDUSTRY AS A "WIN-WIN" ARRANGEMENT IN WHICH THERE ARE NO LOSERS ONLY DESTRUCTORS. IT HAS BEEN GOOD FOR MEXICO. IT HAS ALSO BEEN GOOD FOR CALIFORNIA. I ASK THAT THIS COMMITTEE UNDERTAKE ANY ACTIVITY THAT WILL ENHANCE AND PROMOTE THE MAQUILAS FOR THE COMMON GOOD OF BOTH COUNTRIES.

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11-3-87

November 4, 1987

Sacramento, California

STATEMENT OF THE UNITED STATES-MEXICO CHAMBER OF COMMERCE  
BEFORE THE COMMITTEE ON INTERGOVERNMENTAL TRADE AND  
INTERGOVERNMENTAL RELATIONS

IMPLICATIONS OF MEXICO'S ENTRY INTO THE GATT  
AND ITS BILATERAL TRADE NEGOTIATIONS WITH THE UNITED STATES

My name is Duane H. Zobrist, President and Chairman of the Board of the United States-Mexico Chamber of Commerce. The Chamber is a non-profit organization incorporated under the laws of the District of Columbia with offices in Washington, D.C., Los Angeles, California, Dallas, Texas, and Mexico City, Mexico.

The Chamber represents many of the companies doing business in Mexico and through its affiliated Chambers -- the Confederation of Industrial Chambers of Commerce (CONCAMIN), Confederation of National Chamber of Commerce, Services and Tourism (CONCANACO), the National Chamber for the Transformation of Industry (CANACINTRA), and the National Chamber of Commerce of Mexico City (CANACO) -- represents the interests of over



200,000 Mexican companies, many of which are engaged in trade with the United States.

Since 1973, the Chamber has been the principal spokesman for U.S.-Mexican business interests in the United States. As President of the Chamber, I appreciate the opportunity to express the views of our membership on the implications, from California's point of view, of Mexico's entry into the General Agreement on Tariffs and Trade (GATT) and its current bilateral trade negotiations with the United States.

With their 1986 bilateral trade totalling some \$30 billion, the United States and Mexico have good reasons for close economic cooperation. For Mexico, over 60 percent of the country's exports go to the United States and approximately 70 percent of its imports come from the United States. From the standpoint of the United States, Mexico is our fourth largest trading partner and, particularly for border states such as California, our economies are closely intertwined through our people, our culture, and our businesses.

This situation makes recent developments in Mexico of strong interest to the state of California. We have recently been witnessing what I believe is to become an historic transformation of the Mexican economy - providing a positive and fundamental impact on commerce and investment between our two countries.

In the face of severe economic difficulties, Mexico has sought to diversify its economy, making it less vulnerable to

fluctuations in the price of oil. Structural changes are thus being implemented through a series of actions aimed towards restoring investor confidence and encouraging industrial modernization and competitiveness. In essence, the government is seeking to "spur the engines of growth" through a strong and diversified private industry.

The Mexican government has been encouraging economic "privatization" partly by selling off state-owned enterprises to the private sector. Thus far, it has turned over 600 formerly state-owned companies involved in activities such as hotels, bottle manufacturing, bicycles, metal fabrication and automobile spare parts.

While encouraging privatization, Mexico is also directly competing for foreign investment, easing restrictions in this area and instituting a generous debt-equity swap program under which some \$2.5 billion in investment transactions have been approved since the program's inception in April, 1986.

Meanwhile, the Mexican government has recognized that a more diversified economy entails fuller participation in world trade. However, you should recognize that acting on this conclusion has dramatic and fundamental implications for Mexico's domestic economy. Many of the country's industries have been protected for a long time, and this applies in particular to Mexico's small and medium-sized companies. For them, freer trade means radical change.

Thus Mexico's accession to the GATT last year signalled the

seriousness of its intention to pursue new policies with full vigor. Until that time, Mexico had remained the only large Western economy outside the world trade organization. By joining GATT, Mexico agreed to limit its tariffs, which only recently had ranged up to 100 percent of value, to a maximum of 50 percent. In addition, it agreed to make specific cuts in tariffs and other barriers on more than 350 products representing some \$3 billion a year in trade. Since then, under the current round of GATT multilateral trade negotiations, other cuts are being considered on a product by product basis.

Meanwhile, Mexico has been implementing tariff reductions which are not derived from the GATT accession negotiations. Thus by the end of 1988, the government will have reduced most tariffs which have previously ranged between 20 and 30 percent. In addition, tariffs for certain raw materials, intermediate goods and consumer items will be set at between zero and ten percent.

Legally, Mexico's accession brings with it all the rights and obligations that are the foundations of GATT. These include the binding of tariffs so that they cannot be raised without negotiation and compensation to a country's trading partners; the principle of most favored nation; and the principle of national treatment. In addition to these three pillars of GATT, it brings rights and obligations concerning such matters as the use of quantitative restrictions on imports and exports and the application of antidumping and countervailing duties. It also

brings other important rights and obligations on matters such as subsidies, customs valuation, import licensing and technical standards.

These features are promoting predictability and transparency in trade between Mexico and the United States. From our perspective, that is the key to doing business in Mexico.

Mexico's accession has also provided a multilateral dispute settlement mechanism by which trade frictions can be worked out. This mechanism has been used many times to resolve disputes among GATT contracting parties and, perhaps more important, it acts as an incentive to avoid trade restrictions. No country likes to be taken before a world body to explain its actions, and any contracting party that considers imposing trade barriers must consider the possibility that they will be found in violation of GATT and be faced with the choice of either compensating the injured trading partners or watching those trading partners retaliate against it with the blessing of the GATT.

Of course, we all know that GATT has its faults in this respect. Its dispute settlement mechanism is not perfect. Therefore, the United States and Mexico have negotiated what is seen as the next logical step following Mexico's accession to the GATT: a Bilateral Framework Agreement scheduled for signing in Mexico City on November 6.

The Agreement is reportedly intended to provide a

consultative mechanism that can be used to address trade and investment issues between the two countries.

The Bilateral Framework Agreement also addresses areas not fully covered by GATT - such as investment and trade in services. The Office of the United States Trade Representative has indicated that within 90 days following signing of the Agreement, consultations will begin on textiles, agriculture, steel, investment, technology transfer, intellectual property, electronics and services to determine if improvements can be made in bilateral trade for each of these sectors.

We expect this mechanism to have large value as a supporting alternative prior to turning to the GATT, which often becomes a more open and adversarial type of process. In addition, we expect the accord to foster a much clearer basis for conducting commerce and investment between our two countries.

These two accords, the GATT and the Bilateral Framework Agreement, are two very positive steps for future trade and investment between Mexico and the United States.

Furthermore, we at the U.S.-Mexico Chamber of Commerce take great interest in the U.S. Canada Free Trade Agreement announced on October 3, 1987. If approved by the U.S. Congress and the Canadian Parliament, the Agreement will mean the elimination, by the end of this century, of most tariff and non-tariff barriers between the U.S. and Canada. It will also establish an independent arbitration mechanism for settling disputes and will

aim towards harmonizing product standards and testing.

Many of the issues dealt with in this Agreement are similar to those which concern the United States and Mexico. Among its provisions, the Agreement calls for the elimination of certain grain commodity license requirements and, within ten years, all agriculture tariffs. It aims towards free energy trade; eliminates all automotive tariffs over the next five to ten years; establishes the first international guidelines for trade in services; provides for national treatment of foreign investments in both countries; and ensures easier border crossings for business people between both countries. It also contains specific provisions covering financial services, intellectual property, government procurement, customs procedures and cultural matters.

While our economies of scale are different and the full range of similar arrangements between the U.S. and Mexico may not be possible at this time, the U.S.'s Free Trade Agreement with Canada could provide a significant influence on future developments affecting trade relations with Mexico.

We expect the government of Mexico will continue its move towards more liberal foreign trade and investment policies.

Mexico's likely next President, former Secretary of Budget and Planning Carlos Salinas de Gortari, has served as one of the principal architects and advocates of President de la Madrid's economic liberalization program. He will soon campaign as the

candidate of the Institutional Revolutionary Party (PRI) and, barring an upset of historic proportions, is expected to begin a six year term in office on December 1, 1988.

As I suggested at the beginning of my statement, we have been witnessing what I believe are historic developments providing a positive and fundamental impact on economic relations between the United States and Mexico. These developments have special significance for the State of California. They open up new business and investment opportunities which should mutually benefit Mexicans and Californians. It is to all our interests to foster these developments and the United States-Mexico Chamber of Commerce is prepared to assist in this effort in any way it can.

Thank you.

Statement by: **Gabriel Székely**, Ph.D., Associate Director  
**Center for U.S.-Mexican Studies**, University of California, San Diego,  
before the International Trade and Intergovernmental Relations Committee  
of the California State Assembly.

Los Angeles, CA, November 4, 1987.





Mexico/GATT and the Status of U.S./Mexico Bilateral Trade Negotiations--Implications for California

On Friday, November 6th, the governments of the United States and Mexico will sign an agreement in Mexico City that could further encourage trade and investment between our two nations. The "framework agreement" negotiated by federal authorities will include established practices and mechanisms for resolving controversies. This pact constitutes the last of a series of steps taken by the de la Madrid administration since mid-1985 to end the relative isolation of Mexico's economy.

During the first three years of his presidency up to 1985 de la Madrid did little to fulfill his electoral commitment to liberalize the economy. Restrictions remained in effect for 100 percent of imports until late 1984, though such protectionist policy was subsequently relaxed. When Mexico entered the GATT in August 1986, it promised to reduce restrictions to 30 percent of total imports by the end of 1987. This goal is now within reach.

The old system of import permits has been largely replaced with import duties. The average level of duties has been reduced as has the maximum tariff on imports (from 100 to 30 percent). Additionally, the elimination of official reference prices is nearing completion. In the administration's view, the key issue has been the inability of business to expand non-oil exports, despite incentives and an undervalued exchange rate. The peso is linked to the U.S. dollar, which has lost 40 percent of its value since early 1985 in relation to other leading international currencies. Mexico's non-oil exports grew quite modestly over the last decade, from 2.7 billion dollars in 1976, to 4.7 billion in 1980 and 9 billion in 1986. While some progress has been made, this level of exports is much lower than that of countries at a comparable level of development such as Brazil,

Korea, and Taiwan. The government hopes that trade liberalization will attract investments and will help improve productivity and the quality of exported goods.

The trade agreement with the United States has been preceded by a "memorandum of understanding" signed by the two governments in April 1985. Mexico gradually reduced subsidies for its exports, while the U.S. agreed not to impose compensating duties unless Mexican products were subjected to the "injury test" arising from complaints by U.S. producers. Both countries continue to perceive the need for further liberalization.

From Mexico's point of view, there are three main reasons:

--Mexican exporters would like to secure greater access to the U.S. market. Voluntary restrictions have prevented Mexico from realizing its full export potential in cases such as steel, textiles, and agricultural products.

--Mexico wants greater certainty and precision on the products that are included in the General System of Preferences.

--Most importantly, Mexico is concerned that protectionist pressures in Congress may lead to changes affecting manufacturing imports into the U.S., especially from the maquiladoras along the border. Mexico, as well as a great number of U.S. businesses, are doing all they can to consolidate and expand border industries, while pressures are mounting to include restrictions in the trade bill pending in Congress.

For the U.S., curbing trade and particularly investment barriers is an objective of paramount importance. Mexico's imports from the U.S. are still well below the level reached before the 1982 economic crisis. While U.S. exports to Mexico reached an all-time high of 15.9 billion dollars in 1981, they fell to 5 billion in 1983, recovering to 12 billion in 1986. Clearly, the full impact of recent measures to liberalize imports is likely to be felt by U.S. exporters only when

economic growth in Mexico is resumed and when the government's resolve to resist calls for renewed protection will be put to the test. Thus, the U.S. is concerned with negotiating specific rules and mechanisms to handle trade disputes. When such disputes arise in the future, representatives from both governments will meet to try and reach a bilateral solution. What is not contemplated in the agreement, however, are further bilateral mechanisms should they fail to reach agreement. Instead, everything appears to indicate that they will go directly to the GATT.

The U.S. also hopes to begin discussions on patents, intellectual property, and trade in electronics, including telecommunications. These are all issues which the U.S. is pushing hard in the agenda of current GATT negotiations in Geneva. A common U.S. complaint has been that Mexico has failed to protect the legitimate rights of foreign concerns in these areas.

On investment policy, the current Mexican administration has achieved significant liberalization of investment rules and has got rid of much bureaucratic red tape. According to the World Bank's most recent assessment of economic performance and future prospects in Mexico, foreigners hold majority shares in over 40 percent of companies with foreign capital. They may now raise their equity share or transfer stocks without prior authorization from the government. Applications by new firms that are export-oriented are approved within a month. In 1986, new foreign investments reached one billion dollars, nearly twice the amount of the previous year.

U.S. business groups are watching for further hints of liberalization of investment rules:

--the criteria used by government officials in approving certain types of investment, such as export requirements and the use of local inputs for production.

--The government's disposition to encourage joint investment in private and public firms, on the lines achieved last year by the Japanese in the steel industry.

--a willingness to reduce the influence of powerful labor unions that hold back investment decisions in certain cases.

In sum, there are exciting opportunities as well as great challenges associated with trade and investment relations involving Mexico and the U.S. In regard to the specific concern of this Committee, I would like to remind you that Mexico has been hesitant in the past to try to influence the policy-making process in the U.S. Congress even if many of its decisions affect Mexico's interests in direct and indirect ways. There is fear that an open activism in Washington could legitimize a greater involvement of the U.S. in domestic political processes. Moreover, Mexico, like most developing nations, has quite limited human and financial resources to promote its views effectively in the nation's capital. The role of business and other private organizations has been helpful, but it no longer suffices to protect the national interest of Mexico. There is an objective need to secure support and advice from participating actors that enjoy the legitimacy and have the resources needed to influence Congress.

In light of the above, the proposal to strengthen relations between the state of California and Mexico must be welcome. Careful planning and an open attitude on both parts could be instrumental in helping raise common concerns within the Washington political establishment. Failure to proceed along these lines will increase the likelihood that California and Mexico's economic partnership will be hurt by rising protectionism in the United States.

## TRADE WITH MEXICO

Good afternoon. My name is Al Araiza. I am the Manager of Mexico Projects for San Diego Gas & Electric Company.

### Preface

Our presentation today covers two areas: First, I will describe the experience San Diego Gas & Electric Company (SDG&E) has had dealing in Mexico. Secondly, based on that experience, Mr. Ron Fuller will describe our perspectives concerning the subject report "Strengthening California-Mexico Relations" prepared by the Task Force on California-Mexico Relations. Ron will also briefly comment on our views on the benefits of a California presence in Mexico City.

### SDG&E Interest in Mexico

In the late 1970's, coupled with the demise of our Sundesert Nuclear Power Plant plans, and the need to diversify our resource mix, my Company, San Diego Gas & Electric, began looking for new opportunities for generating electricity to serve our rapidly growing customer demand.

Mexico's considerable success with geothermal energy development, and San Diego's close proximity to the border, made it appropriate that we pursue the concept of an energy relationship with Mexico.

We began discussions with Mexico's Federal Electric Commission (CFE) in early 1978. Soon thereafter, our two companies agreed to establish a joint planning committee to study the feasibility and desirability of interconnecting our two systems.

The committee traded meetings in San Diego and various Mexican cities, particularly at their headquarters in Mexico City. Studies, which took a year to complete, included studies of power flows, power stability, service reliability, construction schedules and costs, transportation paths, diversity and production costs. Both languages were and continue to be, used in all discussions obviously requiring frequent translation.

After one year, the joint studies concluded that the project was technically feasible and that the economic benefits would exceed the capital investment required by each utility.

Negotiations began in earnest in early 1980 and in November 1980 Executives of CFE and SDG&E signed an historic agreement for CFE to provide round-the-clock, low-cost geothermal energy to SDG&E from their Cerro Prieto facility near Mexicali about 135 miles southeast of San Diego. Also signed was an agreement enabling either utility to transact energy sales on an intermittent basis. (The latter has been effected each summer since 1983. It is particularly effective in that San Diego

has provided emergency energy to Baja California during their high-energy-need summer periods.)

Following negotiations, both companies immersed themselves in the lengthy process of constructing and installing necessary facilities, including a power plant, substations, high-voltage transmission lines and computerized energy control centers. This seemingly endless task required the cooperation of many other companies and agencies on both sides of the border. Due to the international characteristics of the project, federal permitting offices in Washington, D. C. and Mexico City were necessarily involved, thus requiring numerous trips and meetings to these distant locales. In many respects, we pioneered, uncharted, virgin territory. We have no doubt that had there been a trade office in Mexico City to assist us, our jobs would have been greatly facilitated.

We are, however, truly gratified for the effort we made. Today, there is a steady stream of energy flowing between CFE and SDG&E; a reliable, low-cost energy that is a major link between Mexico and the United States.

The implications of the relationship, however, go far beyond the transmission lines and the contract that we began with. This positive experience has enabled the Mexican and U.S. utility companies to think beyond the simple agreements we began with. CFE, for example, expects soon to begin discussions with many other U.S. utility companies regarding a variety of other new energy export projects. CFE



feasibility studies have already begun, for example, on geothermal expansion, hydroelectric pump-storage projects, and even a joint venture with Japanese interests for a coal/oil-fired project. All of these projects are being considered by Mexico for development and for their export potential to the United States. As these major projects reach fruition, the great amount of energy they will make available will extend far beyond my Company's needs. It is apparent that other California utilities such as Southern California Edison, Pacific Gas & Electric, Imperial Irrigation District, and certainly even those in neighboring states will have opportunities with Mexico similar to our own.

Given the benefits of this first, very positive experience with Mexico, SDG&E continues to investigate additional opportunities with Mexico, opportunities that would be of mutual benefit. The idea of a natural gas interconnection at our border with Mexico is very appealing to us. Due to the considerable distance from its main grid, PEMEX, the Mexican federal agency responsible for that country's abundant natural gas reserves, does not yet provide service of that fuel to Baja California. My Company is investigating the feasibility of providing that service to the adjacent rapidly-growing manufacturing industry until such time as PEMEX is able to bring in their own supplies. SDG&E considers the prospect of having a major long-term natural gas supplier at our border extremely beneficial for our San Diego customers, as it would be to others in the state.

Mexican manufacturing and the maquiladora, or in-bond industry, along the border is also something SDG&E is examining for its potential.

There are products or services this industry can assemble or manufacture which SDG&E may wish to take advantage of for potentially large expense reductions.

As you can see, SDG&E's entire evolution of a relationship with Mexico has occurred in a very few years. This experience, however positive, has had with it a share of difficulty and frustration. Learning how to deal and who to deal with in Mexico, differences in culture, business ideology, language and legal requirements were real challenges that we needed to overcome. In spite of our success, we continue to learn in this area of international trade. In this regard, we welcome the inference that the state of California is considering offering assistance.

It is a pleasure for me to now introduce to you SDG&E's Vice President of Governmental Affairs Ron Fuller. Presently, and in his previous assignment in Washington, D. C., Ron has been close to, and very supportive of, our relationship with Mexico.

A. C. Araiza, Jr.



TESTIMONY SUBMITTED BY  
LIEUTENANT GOVERNOR LEO MCCARTHY  
ASSEMBLY COMMITTEE ON INTERNATIONAL TRADE AND  
INTERGOVERNMENTAL RELATIONS  
LOS ANGELES  
NOVEMBER 4, 1987

Madame Chair and members of the Assembly Committee on International Trade and Intergovernmental Relations, I regret I am unable to attend your hearing today on the "internationalization of California State Government."

Nevertheless I want to record my views on both your agenda items: the Little Hoover Commission's report on the organization of the state's international trade and investment activities, and the report by the State Task Force on California-Mexico Relations.

I am gratified the Little Hoover Commission was mandated to study how state government has been organized to deal with international trade and investment business coming before state agencies.

I have been keenly interested in this topic for some time. In 1985-86 I was involved in efforts to make the California State World Trade Commission a more effective organization for defining and representing this state's diverse interests in international commerce.

In An International Trade Policy for California, a report submitted to the World Trade Commission in September 1986, I presented my vision of California's trade future. Included was my concern about the ad hoc way several state agencies were assuming roles in either promoting California's trade or attracting foreign investment. On May 29, 1987, I restated this position at the Little Hoover Commission's public hearing in San Francisco.

To avert this vital area of public policy being turned into contested bureaucratic turf, I urged a new approach to deal with new challenges. I called on the Governor to designate the Secretary of an appropriately renamed and restructured Business, Transportation and Housing Agency to oversee all of the state's international trade activities. A Deputy Secretary would handle the day-to-day responsibility for coordinating trade-related activities of state agencies.

I further recommended that operational responsibilities of the World Trade Commission (i.e., the Commission's trade promotion and export finance programs) be transferred to the California Department of Commerce.

The Little Hoover Commission's report concurs with my view of the problem. But it does not go far enough in addressing a solution.

The report's basic recommendation, creation of a Governor's Office of World Trade, can be interpreted as merely a validation of the existing arrangement. And it appears that is exactly the interpretation the Administration will make.

The Administration believes this important area of public policy can be coordinated by part-time individuals with no expertise in international trade or economics. The Little Hoover Commission's report challenges this arrangement.

The Little Hoover Commission and I agree: if California's businesses are to be competitive in the next century, California deserves a more professional operation for coordinating the activities of a growing number of Executive departments dealing with trade. However, I still prefer assigning responsibility for coordinating the state's trade and investment activities to the Business, Transportation and Housing Secretary, served by the ablest professionals we can find.

Another ambiguity in the report results from its leaving the World Trade Commission without a viable role. While urging establishment of the Governor's Office of World Trade, the report fails to specify any linkage between the World Trade Commission and the Governor's Office of World Trade. Since the report would have the World Trade Commission's operational responsibilities transferred to the Department of Commerce, the World Trade Commission would become an advisory body with no one to advise.

Under my plan, the Executive Director of the Commission would also be Deputy Secretary for Trade and Investment under the Business, Transportation and Housing Secretary. The Commission would continue to have an influential role in determining state policy.

We also need to establish a broadly-based, bipartisan consensus in support of our state offices overseas. So long as these offices are administered by the Governor's office, there is the danger a future Governor will unilaterally close one or all overseas offices. Under existing circumstances, the Legislature would be unable to prevent such an action.

The Tokyo and London offices may require larger expenditures than the current budget envisions. It also is possible additional offices may be created. Ultimately, legislative backing for such a commitment of resources will be essential.

Indeed, the State Task Force on California-Mexico Relations calls for such an additional office. Controversy over the manner in which this report was prepared, and over some of its recommendations, should not obscure the value of its most important recommendation -- establishment of a California office in Mexico City.

I have argued the merits of such an office since early 1985 when we first began to consider opening state trade offices abroad. I urge this recommendation be implemented as soon as feasible and responsible.

I say as soon as responsible, because before decisions are made concerning funding and staffing, we need to carefully define and agree on the mission of this office and how its role can best be realized. In short, let's have a well-reasoned business plan before opening our doors for business.

Thank you for considering my views on these two reports. If I or my staff can be of assistance, please do not hesitate to call.

(END)



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# Assembly California Legislature

## Assembly Committee

on

## Agriculture

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ASSEMBLYMAN, SEVENTH DISTRICT

October 26, 1987

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The Honorable Lucy Killea, Chairwoman  
Assembly Committee on International Trade  
and Intergovernmental Relations  
Room 3173, State Capitol

Dear Lucy:

Thank you very much for the invitation to attend your November 4th committee hearing. A prior commitment keeps me from being with you. Nonetheless, I would appreciate it if you would read this letter into the public record on that day.

The Little Hoover Commission recently completed a thorough analysis of California's involvement in international trade. I concur with many of the Commission's recommendations. These comments are framed in light of the statement in the Little Hoover Commission report that "since no single entity...is responsible for consolidating expenditure...on the State's world trade activities, the Governor and Legislature do not have adequate information available...for making decisions on future funding or policy and program development."

I would like to respond to this as it relates to the promotion activities centered in the California Department of Food and Agriculture, particularly the popular Agricultural Export Promotion Program. This program is near-and-dear to me as I authored the implementing legislation AB 1423 and two subsequent clean-up bills.

With the goals of accountability and coordination in mind, language was crafted in AB 1423 to solicit participation of affected state agencies. Both the World Trade Commission and the Secretary of Business, Transportation and Housing are members of the influential advisory committee, which has the important mandate of recommending private project proposals to fund on a matching basis with state monies.



Secondly, I respectfully disagree that neither the Governor nor the Legislature is properly informed to make decisions regarding future funding for at least this program. The normal budgetary process provides an annual and separate review by both the Governor and the Legislature regarding this program's development. As additional safeguards, both a 5-year sunset clause and a 3-year progress report apply to AB 1423's program.

It was my intent then -- and remains mine now -- that the Agricultural Export Promotion Program be housed in the California Department of Food and Agriculture (CDFA). CDFA has a respected working arrangement with the agricultural sector and a long-standing relationship with the U.S. Department of Agriculture which administers a similar program at the federal level.

Lucy, in closing, I continue to look forward working with your committee on international trade issues especially those affecting agriculture, our #1 industry.

Sincerely,



NORM WATERS, Chairman  
Assembly Agriculture Committee

cc: CDFA Director Jack Parnell

mentor international

November 2, 1987

Assemblywoman Lucy Killea

Chairwoman  
Assembly Committee on International Trade  
and Intergovernmental Relations  
State Capitol  
Sacramento, CA 94249-0001

Dear Assemblywoman Killea:

I had been very pleased at the invitation to participate in the November 4 hearing of the Committee, and am disappointed that my business now requires me to be in Japan.

As author of the Mentor Feasibility Study on Overseas Offices, and of the subsequent Business Plan for these offices, I have strong feelings of parental pride, mixed with anxiety about the resulting consequences.

In lieu of personal attendance, the enclosed memorandum summarises my reactions to, and evaluations of:

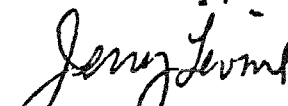
- The performance of the California overseas office program to date
- The analyses and recommendations of the "Little Hoover Commission"

In brief, I am very favorably impressed with both, and with the acts of your Committee, the Legislature, the Governor's office, the World Trade Commission and the Office of Business Development.

It is, in fact, almost embarrassing to me to be so full of praise since I enjoy creative and critical commentary. The praise, however, is well deserved.

I will be back in California from November 16, and will be pleased to meet with you to pursue these thoughts then.

Sincerely,

  
Jerry Levine  
President

Enclosure



California's Overseas Offices: An Assessment

These observations are offered from multiple perspectives:

1. From 30 years of international business practice.
2. From many years as a director, and past president of the California Council for International Trade.
3. As a consultant to many governments.
4. As author of the California overseas office feasibility study, and business plan.

From all of these perspectives, I must say that California's overseas office program is off to a very fine start. Perhaps a grade of 95 out of 100.

The success of the program derives primarily from the qualities of the individuals who designed it, and particularly of those who are executing it. The caliber of these individuals has permitted the program to surmount organizational flaws and variations.

The program has generally been able to avoid, or to surmount the pressures of partisan politics. I believe this is due in no small measure to the fact that the time has clearly arrived for the "Internationalization of California", and that all see the virtues of supporting this tide. There is strong support in the business community, and in the population at large, for an active California role in facilitating direct foreign investment into the State, and export of California products.

Among the factors contributing to the initial progress are:

- Intelligent leadership from the Legislature.
- Active participation by the governor and his staff.
- Significant initial and ongoing inputs from the international business community.

Worthy of Praise in the Overseas Office Program

1. The speed with which the Tokyo and London offices were established, (and the selection of those cities for the Asian and European initial locations).
2. The caliber of the individuals selected for those offices. Jim Vaughn, Jim Phillips, and Isabella Kalisczszak are all extraordinarily well qualified.
3. The caliber of the members of the World Trade Commission and its executive director, Greg Mignano.

4. The placement of responsibility in the hands of a World Trade Coordinator, Jim Robinson, who enjoys the Governor's confidence. The benefits of locating the activity in the Governor's office.
5. The moves to strengthen the in-State infrastructure for international business.
6. The specific address, and outfitting of the London office, which is optimal, appropriate and effective.
7. The address and outfitting of the Tokyo office, which is also optimal.

Causes for Concern in the Overseas Office Program

1. The squeeze on budgets for overseas expenses caused by the immense deterioration of the U.S. dollar. It is vital to begin now to allocate further funds.
2. The lack of European personnel in the London office. No further Americans should be added to that staff. Local market knowledge is essential for effective export promotion, and local personnel of equivalent capability could cost half of a U.S. expatriate.
3. The position of World Trade Coordinator should be full time. And it should be filled by someone with heavy international business experience. This comment is in no way a reflection on the capabilities and dedication of Jim Robinson who is making as great a contribution as circumstances permit.
4. Some appointments to the World Trade Commission lack appropriate international experience. This reflects a lack of understanding of the complexity and importance of international trade and investment on the part of those making the appointments.
5. The historic instability of California's international initiatives, and the prospect of further changes, even if they seem sound.
6. The need for further development of the in-State services.
7. The need for firm plans to open additional overseas offices, and to select the locations wisely. (Illinois has five, and New York six.)

In this respect, I personally support the concept of a California office in Mexico, due to the overwhelming importance of that country to the future of California. But we should not delude ourselves into believing that such a presence is justifiable on grounds of investment promotion into California, or even exports from California.

8. The California business community must be kept informed and enthusiastic. Their support is essential.
9. Expenditures on agriculture export programs are disproportionately high relative to the percentage of California exports contributed by agriculture.

ABOUT THE REPORT AND RECOMMENDATIONS OF THE COMMISSION ON CALIFORNIA  
STATE GOVERNMENT ORGANIZATION AND ECONOMY

The report of the Commission is extraordinarily perceptive, thoughtful, and valid. Its recommendations should be given the most serious consideration.

I substantially concur in all of the nine "Findings" of the study.

Regarding the Recommendations of the Commission

RECOMMENDATION NUMBER:

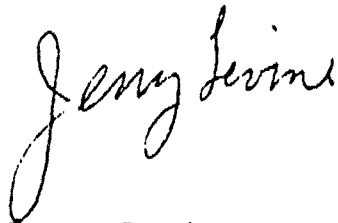
1. The proposal for a Governor's Office is good. It should, however, refer to both trade and investment. In my view, though it reports to the Governor, it is in fact a California office, and the name should reflect this. Perhaps, the CALIFORNIA WORLD INVESTMENT AND TRADE OFFICE, (WIT).
2. A full-time coordinator, as recommended, is necessary. To be truly professional, and to avoid the inevitable errors of a beginner, this person must have substantial international experience.
3. There is need for a protocol function. It should be in the WIT office. And provision should be made for liaison in Los Angeles, San Francisco and San Diego, at least, with the Consular Corps, and with overseas visitors to those cities.
4. The Information Clearinghouse seems logical, but requires much more definition. It could be a useless endeavor: under-utilized and overly expensive. If the information is meant to be useful to business, then it should be supplied at cost, and be fiscally self-supporting. Where will it be? The international business community is not in Sacramento.
5. Reporting requirements, and performance measurement are essential. This means setting out specific goals at the beginning of the year, and counting the results at the end.
6. The relocation of export promotion activities to the Department of Commerce does worry me. The present activity works so well, it is a pity to disturb it. Will civil service regulations preclude recruiting experienced international traders from outside the Department? How will the interface with the overseas offices work?

I believe I would rather see the activities in the WIT office, with perhaps a liaison officer assigned from the Department of Commerce.

Similarly, it could be rational to move agricultural export activities to the WIT, with a liaison officer from the Department of Agriculture.

7. Maintaining the World Trade Commission as an advisory body as outlined in the Commission report makes sense, provided appointments can reflect international experience.
8. The Joint Legislative Committee is also a good suggestion.

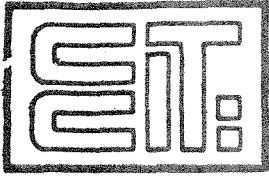
In summary, California has made a very good start. Let us maintain the initiatives, institutionalize the process, and remain professional.



Jerry Levine  
President  
Mentor International







CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE

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Los Angeles, CA 90071-0879 (213) 617-2248

October 27, 1987

Assemblywoman Lucy Killea  
California State Assembly  
State Capitol  
Room 3173  
Sacramento, CA 95814

Dear Assemblywoman Killea:

I regret that I will be unable to personally appear at your hearing in Los Angeles on the Little Hoover Commission's recommendations but would ask that you accept this letter and its enclosure in lieu thereof. While my comments are self-explanatory, I can indicate that in the enclosure we attempt to address each of the specific recommendations made by the Little Hoover Commission in its report and that in the following we offer a few additional comments.

One of the fundamental issues to be considered by the Governor and Legislature, as they reflect on the Little Hoover Commission's report, is whether the proposed reorganization is timely. Many thoughtful people will no doubt argue that a reorganization now, coming so soon after major statutory amendments to the World Trade Commission's enabling act, is too much, too quickly -- that, instead, the state should give the existing structure a greater chance to work and be effective. This argument is compelling and has great merit.

Nevertheless, it appears to us that there probably will never be a perfect time for a reorganization and to delay consideration of the Little Hoover Commission's recommendations now would be to solidify a current structure which may not be optimal, increase the reluctance of state bureaucracies to yield jurisdictional turf, and place the ultimate adoption of an enhanced system more in doubt. In this sense, it seems better to act sooner, rather than later, despite the admitted downside of continually reforming a structure which has only recently been put in place. Thus, while recognizing the good arguments on both sides of the issue, CCIT believes that it is timely to reflect on the Little Hoover Commission's recommendations and, if appropriate, to adopt them.

Assembly Lucy Killea  
October 27, 1987  
Page 2

In general, CCIT feels that the basic recommendation of the Little Hoover Commission to establish a "Governor's Office of World Trade" is sound and that such office, if properly directed and funded, will accomplish the goals of better trade policy coordination and accountability. If directed by a full-time coordinator, with sufficient staff to carry out its expanded role, the office will almost certainly be a success. CCIT also feels that the Commission's suggestions regarding (i) the establishment of a "Protocol Division" within the office; (ii) the establishment of a "World Trade Information Clearinghouse" within the office; and (iii) the requirement that an "Annual Report to the Legislature" be prepared by the office are all highly useful recommendations.

In our enclosed comments, we have added to the debate somewhat by suggesting that a private sector advisory committee be formed to assist the work of the Governor's Office of World Trade and, if such a committee is established, that this committee participate in the writing of the proposed annual report to the Legislature. To some degree, the activities of any such private sector advisory committee would overlap with the work of the World Trade Commission, which itself acts in an advisory capacity. Nevertheless, we believe that such overlap would not be substantial and that private sector input to the Governor's Office of World Trade would be greatly enhanced if such a committee were formed and maintained.

We also believe that the Legislature could benefit from the work of this committee if the committee were allowed to prepare a short, consensus statement for inclusion in the proposed annual report to the Legislature. This statement would, in effect, supplement the knowledge that the Legislature gains through the hearing process and add to its overall perspective on the private sector's viewpoint regarding California's trade and investment policy.

The alteration of the World Trade Commission's role, as suggested by the Little Hoover Commission's report, is to us more painful to contemplate, simply because of the very effective way the World Trade Commission has carried out its responsibilities to date. If there is to be a transfer, continuity of activity should be kept uppermost in mind. Moreover, we speculate that the transfer of responsibilities from the World Trade Commission to the California Department of Commerce may bring into play less flexibility in the hiring and keeping of the specialized talents

Assembly Lucy Killea  
October 27, 1987  
Page 3

that the Commission itself has been able to attract. It would be of great concern to CCIT, for example, that individuals with these specialized experiences and abilities could not, for extraneous reasons, find an appropriate long-term career path within the Department of Commerce. Subject to these comments, we believe that even a reorganized World Trade Commission would retain a vitally important role in the formulation of trade and investment policy and that the overall interests of the state requires the reorganization itself.

Finally, we are also strongly supportive of the recommendation concerning the establishment of a Joint Legislative Committee on World Trade. While this committee would not have markup authority over specific trade bills, it would be able to play an important role by way of policy development and oversight within the Legislature in this critically important area. It is for this reason that CCIT is pleased to support your bill, ACR 82, regarding this subject.

I hope that these comments are helpful and I will, of course, be happy to provide any additional information that you may require regarding CCIT's position concerning the proposed reorganization.

Best regards.

Sincerely yours,



Harry B. Endsley, Esq.  
Chairman, Legislative  
Committee

Enclosure



STATEMENT OF COMMISSIONER GILBERT A. AVILA  
PUBLIC MEMBER OF THE  
COMMISSION OF THE CALIFORNIAS

I am here today to address some concerns that have arisen as a result of the task force report, specifically as it deals with the restructuring of the Commission of the Californias. As a public member of the Commission of the Californias and as a person who has been involved in Commission activities since 1974, I would appreciate the opportunity to submit some information that may impact on the recommendations in the report.

One of the recommendations of the report is that a smaller California delegation be established limiting the number of Commissioners from 18 to 9 and elimination the use of delegates.

I would like to point out that of the 18 existing Commissioners, ten are legislators. Five are members of the Assembly and five are Senators. Seven are public members. In my view the participation of these key legislators can be an important step in keeping the legislature apprised of the key projects and/or problems discussed as part of the Commission's dialogue. Since the Commission can only recommend courses of action, it's obviously in the best interests of the State of California to have within the Commission persons who can, if necessary, transfer these recommendations into legislation at the appropriate time.

I would like to point out that the Californias delegation of the Commission of the Californias does not operate in a vacuum. It is an entity out of the three that make up the entire Commission.

The entire Commission operates under international by-laws and rules of protocol that have been in existence for over twenty years. The inner workings of the Commission are based on nine international committees made up of delegates from the three states. The recommendations contained in the Task Force Report that the California delegation eliminate the use of delegates would effectively deprive the California delegation of participation in the committee structure. It is one thing to recommend the reduction of the amount of delegates, and quite another to eliminate the delegates entirely. May I point out that the California delegates are volunteers from business and government sectors and are donating their time and money to participate in Commission meetings. In effect the state is receiving an in-kind contribution from each delegate. Without their participation we could not afford to purchase the expertise to provide valuable input and technical assistance to our Mexican counterparts. In the past we have seen these volunteer delegates provide expertise on such subjects as drip irrigation seminars for the agricultural sector in Baja California Sur, drug abuse information and literature, solar heating techniques, emergency services, low-income housing prefabrication techniques for government entities in Baja California and many other instances of important dialogue.

I would respectfully submit that these delegates serve a distinct purpose. I whole heartedly support the concept of establishing a Mexico City Office to promote trade and other

important programs. Even prior to the idea of establishing this office there have been numerous instances where Mexican business persons have contacted the Office of California-Mexico Affairs, formerly located in San Diego to inquire about California sources for the purchase of agricultural machinery, industrial products, livestock, and many other commodities. I am sure that the Mexico City office will pay for itself ten fold in terms of Mexican purchases of California made goods.

We on the Commission of the Californias certainly agree that the State of California must expand its ties with Mexico in the areas of trade, culture, education and business. But we also feel that international institutions such as the Commission of the Californias must have their place in the spectrum of cordial interface between two great nations.





## APPENDICES

## EXECUTIVE SUMMARY

The Commission on California State Government Organization and Economy, also known as the Little Hoover Commission, conducted a study of the organization and administration of the State of California's overseas trade and investment offices in response to Assembly Bill 2685 (Killea), Chapter 1387, Statutes of 1986. The purpose of the study was to review the state level administration, coordination and operation of California's world trade, investment, and tourism promotion activities and make recommendations for improvements.

The State of California has dramatically stepped up its world trade and investment promotion activities in the last four years. During this period, the State has increased the funding for its world trade program from \$1.1 million in fiscal year 1984-85 to a proposed \$10.7 million in fiscal year 1987-88. In addition, the State has recently opened overseas trade and investment offices in Tokyo, Japan and London, England.

The State's recent efforts to embark upon a more aggressive program to develop world trade markets and promote foreign direct investment are an attempt to reverse California's lackluster trade record in this area over the past four decades. For example, the State previously opened a trade office in Mexico City, Mexico in 1964, an office in Tokyo, Japan in 1965, and an office in Frankfurt, Germany in 1967. However, due to disenchantment with their performance, the Mexico City office was closed in 1967 and the Tokyo and Frankfurt offices were closed in 1969.

While California's world trade promotion efforts have been relatively stagnant in the past four decades, other states have been actively involved in export and import promotion. For example, the National Association of State Development Agencies reported in March 1986 that 31 states had established or were planning to establish a total of 69 offices in 14 foreign countries to promote exports, investments and tourism.

California's stake in world trade is immense. According to the Executive Director of the California State World Trade Commission, the value of goods passing through the State's ports has more than quadrupled in the past two decades, soaring to more than \$100 billion in 1986. Moreover, by the year 2000, exports and imports together are expected to account for one-quarter of the State's total output. Due to the importance of world trade to California's economy, it is imperative that the State's current world trade program be developed in an organizationally sound manner and be administered effectively to achieve its goal of enhancing California's business ties in the global economy.

The Little Hoover Commission's report presents a total of 10 findings and makes 8 recommendations to improve the organization, administration, and operation of the State's world trade program.

Each of these findings and recommendations is briefly summarized below.

FINDING #1 - California's World Trade Program Lacks a Formal Structure for Accountability

The State of California's world trade program is organizationally dispersed among numerous state agencies, including the Governor's Office, the State World Trade Commission, the Department of Commerce, the Department of Food and Agriculture, and the California Energy Commission. Since no single agency has responsibility for overseeing and controlling the State's world trade program, it is difficult for the Governor and the Legislature to identify the purpose, source and amount of public funds being spent on world trade activities. Moreover, they are unable to quantify, or measure, the extent to which the world trade program is carrying out legislative intent and its established goals and objectives. Since the State now spends more than \$10 million annually on its world trade efforts, there is a real need to have greater accountability for the State's expenditures and improved data on program performance.

FINDING #2 - Coordination of California's World Trade Program Is a By-Product of Relationships Rather Than Administrative Structure

The current administrative structure within California's world trade program is heavily dependent upon the cooperative relationships that presently exist among world trade staff within various agencies. While the use of an informal structure to administer the State's world trade program has worked in the developmental stage of the State's present world trade program, there is a need to establish an enduring institutionalized mechanism for coordination. Due to the uncertain chain-of-command and the large number of autonomous, or semi-autonomous state agencies involved in world trade, the present informal system of coordination will become progressively unwieldy as the State's world trade program grows. Eventually, the administrative responsibilities and protocols among departments must be clarified if the State expects to be able to effectively accommodate the increasing complexity involved in coordinating the State's expanding and evolving world trade program.

FINDING #3 - The Legislature Needs to Assume a More Visible and Coordinated Role in World Trade Policy Development

The continued growth of California's world trade program will require state government to provide additional programs and services and will create additional demands on the Legislature to provide policy guidance and oversight. The Legislature's involvement currently includes the activities of the Senate Select Committees on the Pacific Rim and the Maritime Industry and the Assembly's Standing Committee on International Trade and Intergovernmental Relations. Furthermore, other legislative committees in both the Senate and the Assembly routinely hold hearings and review legislation that have an

impact on world trade. However, the Legislature currently does not have a committee responsible for overseeing the State's world trade program, coordinating trade policy development, or acting as a clearinghouse for trade-related legislation which is being introduced in legislative committees.

FINDING #4 - California's World Trade Protocol Efforts Are Not Well-Organized

The Legislature and the Administration have been hesitant to formally institute a protocol function in support of the State's world trade program. Specifically, they have not made a determination whether public funds should appropriately be committed to diplomatic ceremony and etiquette. If, in order to protect its trade position, the State of California is going to develop and maintain governmental relations with other countries, the Commission believes that the State cannot indefinitely ignore the need for a coordinated and funded protocol operation because social functions where business is conducted create access to international trade opportunities for California firms.

FINDING #5 - California's Current Program of Promoting World Trade Does Not Provide Equal Access to State Resources

The State's world trade program has evolved in such a manner that larger industries with export histories have dominated the use of California's resources for export promotion. For example, approximately \$5 million of the more than \$10 million that California spends annually on world trade promotion goes toward sharing the costs of marketing California's agricultural products in world markets. Presently, the State's world trade program lacks a mechanism to ensure that other less-established exporting industries have equal access to California's resources for export promotion.

FINDING #6 - Economic Data Currently Available to and from the State Government Are Inadequate to Support International Trade and Investment Activities

Timely and accurate economic data are of tremendous significance in trying to promote international trade and investment in California. The State of California currently collects and disseminates a wide variety of economic data to promote its world trade activities. However, the State's data is frequently dispersed throughout state government and is not readily available when needed. To ensure that it can be responsive to the need for economic data and other information, the State needs to develop an improved informational network to support its international trade and investment activities.

FINDING #7 - The Existing Administrative Structure Does Not Ensure California's Long-Term Commitment to Its World Trade Program

The State of California first established an agency to promote international trade in 1947. Since that time, California has shown

an on-again, off-again commitment to encouraging world trade. This was demonstrated most pointedly by the State's having opened and then closed overseas trade and investment offices in Mexico City, Tokyo, and Frankfurt during the 1960s. To reassure potential trade partners and investors that California's world trade activities will continue and indeed expand, the State needs to make its intent to commit resources to world trade over the long term unmistakable.

FINDING #8 - The Role Played by the Governor's Office Gives California's World Trade Program Legitimacy and a High Profile

The State of California has placed the responsibility for the overseas offices in the Governor's Office. This high-level placement within state government provides California's world trade program in general and the overseas offices in particular a higher profile than world trade programs and offices administered by other states. As a result, the involvement of the Governor's Office provides California with an advantage over other states in promoting world trade.

FINDING #9 - California has Demonstrated a Capacity to "Internationalize" State Government for Purposes of Promoting World Trade

The existing world trade program has concentrated on making all units of state government potential agents of international trade and investment. The Administration refers to this process as "internationalization." As a program, "internationalization" refers to efforts to increase state government's awareness that economic self-sufficiency as a single state is a parochial perspective which must gradually be replaced with an international one. The State's current world trade program, although not in place for long, has demonstrated a commitment to internationalize the activities of state government.

FINDING #10 - California's World Trade Program Exhibits a Capacity for Innovation and a Record of Accomplishment

California's world trade program is evolving in unpredictable but often highly innovative and productive ways by responding to the needs and preferences of the State's industries. The current world trade staff have achieved a good measure of success in a rather short time in each of the four components of California's world trade programs: export promotion, investment attraction, tourism promotion, and advocacy. This innovation and record of accomplishment should be applauded and sustained.

\* \* \* \* \*

The Commission recommends that eight specific actions be taken to improve the organization, administration, and operation of the State's world trade program. These include:

1. Establish a Governor's Office of World Trade to oversee and facilitate the development of formal mechanisms for accountability and coordination of world trade activities in state government.
2. Appoint a full-time world trade coordinator to be the Director of the Governor's Office of World Trade.
3. Establish a Protocol Division within the Governor's Office of World Trade.
4. Establish a world trade information clearinghouse within the Governor's Office of World Trade.
5. Require the Governor's Office of World Trade to prepare an annual report to the Legislature on state government's effort to promote world trade activities.
6. Relocate export promotion activities and the Export Finance Program from the California State World Trade Commission to the California Department of Commerce.
7. Give the California State World Trade Commission the responsibility for raising and allocating private funds for California's world trade program.
8. Establish a Joint Legislative Committee on World Trade.

The Commission believes that the implementation of these recommendations will have a positive impact on California's ability to carry out its world trade and investment promotion activities.







# State of California

GOVERNOR'S OFFICE  
OFFICE OF CALIFORNIA/MEXICO AFFAIRS  
1400 TENTH STREET  
SACRAMENTO 95814

APPENDIX B

GEORGE DEUKMEJIAN  
GOVERNOR

September 3, 1987

The Honorable George Deukmejian  
Governor of California

The Honorable Leo T. McCarthy  
Lieutenant Governor, State of California

The Honorable David Roberti  
President Pro Tempore of the Senate  
and Members of the Senate

The Honorable Willie L. Brown, Jr.  
Speaker of the Assembly  
and Members of the Assembly

Dear Governor, Lt. Governor and Members of the Legislature:

On behalf of the California State Task Force on California-Mexico Relations, I am pleased to present this report detailing our recommendations for a stronger and more dynamic relationship with Mexico. This report which responds to Assembly Bill 3697, Chapter 1400, Statutes of 1986, makes a series of recommendations which the Task Force believes will provide the foundation for a more mutually beneficial and durable relationship between Mexico and California.

The Task Force notes that California and Mexico currently enjoy good relations. Ample evidence points to various economic, cultural and governmental linkages. However, we believe that California must begin to focus greater attention on developing and enhancing these linkages as well as establishing new ones where none presently exist. Our proximity, our shared resources, our intertwined cultures, our economies and our common problems naturally draw us together. They also require much closer cooperation, joint planning and joint problem solving. In all of this there is a distinct and important role for state government and its various administrative agencies.

The central focus of the Task Force report is the creation of the California State Office of Mexico Relations to replace the existing Office of California-Mexico Affairs. As described in this report, this new office would be the catalyst for setting into motion innovative programs and state policies.

It is the opinion of the Task Force that the new Office of Mexico Relations must take a pro-active role in shaping state policies which affect California's relationship with Mexico on all fronts --economic, educational, governmental, environmental and cultural.

The phenomenal growth of the Maquiladora industry on the California-Mexico border, the influx of new residents and workers from Mexico into California and the greatly expanded trading opportunities with Mexico since its entry into the General Agreement on Tariffs and Trade (GATT) are convincing arguments for a more creative and productive relationship between Mexico and California.

Recognizing that the federal policies and laws of both Mexico and the United States to a great extent shape and determine the relationship between Mexico, its border states and California, we believe that California must position itself to influence developments in Washington, D.C. The Office of Mexico Relations should, therefore, have a representative in Washington to monitor events and lobby for those policies and programs advantageous to California-Mexico relations. It should also have a presence in Mexico City to facilitate governmental access and to promote trade and investment opportunities. Finally, the Office should not neglect the important and economically vital border area.

This report makes a number of ambitious recommendations for enhancing California-Mexico relations. While it refocuses state attention on the importance of Mexico, describing some current activities and programs and ways to augment them, it is not all inclusive. It does, however, provide state government leaders with a framework for policy choices. It is hoped that it will be a stimulus for even greater discussion and thought on expanding California-Mexico relations.

Sincerely,



David T. Romero  
Chairman

CALIFORNIA LEGISLATURE—1987-88 REGULAR SESSION

**Assembly Concurrent Resolution****No. 82****Introduced by Assembly Member Killea**

August 17, 1987

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Assembly Concurrent Resolution No. 82—Relative to the Joint Committee on World Trade Promotion and Policy Development.

## LEGISLATIVE COUNSEL'S DIGEST

ACR 82, as introduced, Killea. Joint Committee on World Trade Promotion and Policy Development.

This measure would create the Joint Committee on World Trade Promotion and Policy Development which would develop and monitor world trade, as specified.

Fiscal committee: no.

1 WHEREAS, The State of California has embarked on  
2 an ambitious plan to "internationalize" its economy,  
3 promoting its exports and encouraging foreign  
4 investments; and

5 WHEREAS, As visible signs of the state's  
6 determination to become a more active participant in  
7 international commerce, California has recently  
8 established overseas trade and investment offices in  
9 Tokyo and London; and

10 WHEREAS, In coming years there is the likelihood that  
11 additional offices will be established in other areas of the  
12 world; and

13 WHEREAS, California, because of its geographical  
14 position on the Pacific Rim, its resources, infrastructure,  
15 and workforce, is capable of expanded international  
16 business; and

17 WHEREAS, California already accounts for over 15

1 percent of total United States trade and is the premier  
2 exporting state in the nation with exports exceeding \$32.4  
3 billion in 1985; and

4 WHEREAS, California relies heavily on foreign  
5 markets and is, therefore, extremely vulnerable to shifts  
6 in trade patterns and national and foreign trade policies;  
7 and

8 WHEREAS, California, the sixth largest economy in  
9 the world, has a major stake in ensuring that the state's  
10 trade and investment programs and policies are  
11 consistent and compatible with its overall plan for  
12 economic development; and

13 WHEREAS, California's leading industries, including  
14 electronics, aerospace, agriculture, and heavy machinery,  
15 rely heavily on overseas markets for future growth; and

16 WHEREAS, It is estimated that over 1.5 million people  
17 in the state's workforce are involved directly or indirectly  
18 with world trade; and

19 WHEREAS, International business accounts for  
20 approximately 18 percent of the state's economic activity;  
21 and

22 WHEREAS, The state and national trade deficits,  
23 foreign competition, and foreign trade barriers,  
24 particularly in the high technology, manufacturing, and  
25 agricultural sectors, have a major impact on the state's  
26 workforce and future economic growth; and

27 WHEREAS, These factors demand that the state  
28 develop a coherent and coordinated plan to take full  
29 advantage of opportunities to expand international  
30 commerce; and

31 WHEREAS, It is the responsibility of the Legislature to  
32 take an active role in determining the direction, form,  
33 and substance of the state's economic policies and  
34 programs to ensure coordination, efficiency, and  
35 accountability; and

36 WHEREAS, World trade is a major factor in the success  
37 of the economy of California; and

38 WHEREAS, There is a critical need for the Legislature  
39 to monitor more closely all state programs which directly  
40 or indirectly relate to world trade; and

1 WHEREAS, The Legislature, by involvement in the  
2 formation of state trade policy, can help to ensure  
3 California's future economic growth; now, therefore, be  
4 it

5 *Resolved by the Assembly of the State of California, the*  
6 *Senate thereof concurring,* That the Joint Committee on  
7 World Trade Promotion and Policy Development is  
8 hereby created and authorized to do all the following:

9 (a) Conduct hearings on international trade issues.

10 (b) Develop world trade policy recommendations for  
11 the Legislature.

12 (c) Provide oversight of all state agencies,  
13 departments, commissions, and programs that are  
14 involved in international trade development, investment  
15 attraction, or foreign tourism promotion.

16 (e) Monitor federal programs, policies, and pending  
17 legislation which will affect the ability of California's  
18 international trade community to compete in the world  
19 marketplace.

20 (f) Provide a forum for cooperation between public  
21 and private interests concerning trade and investment  
22 policy and activities.

23 (g) Provide a foundation for long-term state policy  
24 which will allow California to meet the challenge of  
25 foreign competition for world markets and interact more  
26 effectively in an international environment; and be it  
27 further

28 *Resolved,* That the committee shall consist of seven  
29 members of the Assembly, appointed by the Speaker, and  
30 seven members of the Senate, appointed by the Senate  
31 Rules Committee; and be it further

32 *Resolved,* That the committee and its members shall  
33 have and exercise all rights, duties, and powers conferred  
34 upon joint committees and their members by the  
35 provisions of the Joint Rules of the Assembly and Senate,  
36 as they are adopted and amended from time to time,  
37 which provisions are incorporated herein and made  
38 applicable to this committee and its members; and be it  
39 further

40 *Resolved,* That the committee has the powers and

1 duties to do any and all other things necessary or  
2 convenient to enable it to fully and adequately exercise  
3 its powers, perform its duties, and accomplish the objects  
4 and purposes of this resolution; and be it further

5 *Resolved*, That the Assembly Committee on Rules may  
6 make such money available from the Contingent Fund of  
7 the Assembly as it deems necessary for the expenses of  
8 the committee and its members. Any such expenditure of  
9 funds shall be made in compliance with policies set forth  
10 by the Assembly Committee on Rules and shall be subject  
11 to the approval of the Assembly Committee on Rules; and  
12 be it further

13 *Resolved*, That the committee shall, within 15 days of  
14 authorization, and annually thereafter, present its annual  
15 budget to the Joint Committee on Rules for its review and  
16 comment; and be it further

17 *Resolved*, That the committee is authorized to act  
18 during this session of the Legislature, including any  
19 recess, until the end of the 1987-88 Regular Session.

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